PUBLIC VERSION

Before the
UNITED STATE COPYRIGHT ROYALTY JUDGES
Washington, D.C.

In the Matter of: Determination of Rates and Terms for Preexisting Subscription Services and Satellite Digital Audio Radio Services	Docket No. 2011-1 CRB PSS/Satellite II

CORRECTED REBUTTAL TESTIMONY OF DAVID J. DEL BECCARO

My name is David J. Del Beccaro and I am the President and CEO of Music Choice. I have overseen all aspects of Music Choice since the company's inception in 1987. I submit this corrected testimony in connection with the above-captioned proceeding, in which the Copyright Royalty Judges ("CRJ") will adjust the rates for the statutory license used by Music Choice for the public performance of sound recordings as a preexisting subscription service pursuant to 17 U.S.C. § 114(f)(1). The reason for my submission of this corrected testimony is to correct calculation errors in Exhibits MC 70 and 71. In the downside projections in these exhibits submitted with my original rebuttal testimony, Music Choice's video revenue and certain costs did not decline based upon the assumed loss of subscribers. This was the result of a calculation error that has been corrected in the attached exhibits. I have also corrected my description of the downside projections to clarify unintentionally ambiguous language.

My Background

I have been involved in the digital music business for twenty-five years, having founded and run one of the first and longest operating digital music services—Digital Cable Radio Associates, which is now Music Choice—continuously since 1987. As a long-time participant in the digital music industry, I have become intimately familiar with various facets of the music industry, including the many forms of broadcasting and digital music services available in the marketplace. I have attended and spoken at many digital music industry conferences alongside the management of various other digital music services, at which various financial, licensing, and other business aspects of a broad range of digital music services have been discussed. A list of my speaking engagements was attached to my direct testimony as Exhibit MC 1. I regularly read trade publications covering the various digital music businesses and the music industry in general. Because of my long participation in the digital music industry and my role as President and CEO of Music Choice, I am generally familiar with the history and offerings of other participants in the broader digital music marketplace, as well as the general profitability (or more accurately lack thereof) of these participants.

The Benchmark Markets Proposed By SoundExchange Are Not Meaningfully Comparable To The PSS Market

In support of its rate proposal, SoundExchange seeks to use three disparate categories of digital music services as benchmarks: (1) permanent downloads, (2) cell phone ringtones, and (3) interactive webcasting. None of these unrelated services are suitable comparables for the residential cable radio service offered by Music Choice. None of the services and markets relied upon by SoundExchange are meaningfully comparable to the residential cable radio market in which Music Choice operates. In each of SoundExchange's benchmark markets, the product or service licensed, and the market demand characteristics for the product or service, are fundamentally different from those Music Choice operates, other than at the most facile level that all of the services use digital music in some way. In fact, Stephen Bryan and Dr. George S. Ford, the only SoundExchange witnesses who address the PSS rate at all, acknowledge that Music Choice's service and market are fundamentally different from those of any other digital music service. (Bryan WDT, p. 15; Ford WDT, p. 13.) They are both correct on that point, if nothing else.

Having identified these three categories of digital music services that are directly licensed by the record labels, SoundExchange argues that the PSS rate should be set within the range of the rates obtained in these other markets. In each of SoundExchange's proposed benchmark markets, as compared to Music Choice, the digital recordings are (1) used differently by the service and by the end users; (2) sold to different types of customers and in different ways; (3) valued very differently by consumers; (4) in two out of the three markets licensed for totally different rights under copyright. In sum, there are no material similarities between Music Choice's PSS service and market and those of any of SoundExchange's three proposed benchmarks.

a. <u>Permanent download stores are fundamentally different than Music Choice</u>

Permanent download stores, such as iTunes, allow a consumer to download permanent digital copies of sound recordings for her own unlimited personal use. Record labels license the download store to make and publicly distribute (i.e., sell) copies of the digital sound recordings. The license to the download store does not include a performance right for the full sound recording, because the resellers are not publicly performing the recordings (other than perhaps short samples of the recordings, used to induce consumers to purchase the full tracks). Consumers choose specific recordings they want to purchase, pay the reseller, and download the digital music file from the reseller's website or through the reseller's software. The consumers then own the copies that they downloaded and can listen to them whenever they like, much like consumers own the compact disc that they buy at a record store or Internet CD retailer. The music file is permanently theirs to play at will, and transfer between computers or other listening devices, like an iPod or smartphone. The transaction between the record label and the download store reflects a wholesaler-retailer relationship. Indeed, the permanent download sale is a sale of goods that completely substitutes for the sale of physical product such as compact discs.

Music Choice's pre-programmed residential cable radio service is not comparable, in any way, to digital music stores such as iTunes, which re-sell permanent digital downloads as a substitute for compact discs. Music Choice does not obtain or require a public distribution license for the sound recordings or underlying musical compositions used in its service because it does not distribute copies of the recordings. Instead, it publicly performs, i.e. plays, sound recordings as part of a set of pre-programmed music channels. Music Choice provides these channels to cable companies, which in turn bundle the Music Choice channels with a wide array of other programming and sell the entire channel lineup of cable television service to the ultimate consumer. The consumers of Music Choice's service do not choose the song they want to hear; they can only choose a genre to listen to. Nor do Music Choice listeners own the recordings they hear; they cannot record the music, much less transfer recordings between devices or take the recordings with them outside the home. Thus, the Music Choice service cannot possibly substitute for compact disc (or digital download) sales. To the contrary, Music Choice's service promotes and complements those sales.

b. Ringtone re-sellers are fundamentally different than Music Choice

Like permanent downloads, ringtones are a fundamentally different (distribution and ownership-based) product than the pre-programmed performance-based service provided by Music Choice. With ringtones, a consumer downloads a digital music recording to her phone for the phone to play when receiving an incoming call. Also similar to permanent downloads, with ringtones the consumer chooses the specific song and owns the copy. The ringtone reseller does not obtain a public performance license, only a license to make and distribute copies. As with permanent downloads, consumers' transactions with ringtone services are sales of goods, which are wholly non-comparable to Music Choice's cable radio service. Again, Music Choice's residential service does not and cannot substitute for ringtone sales, and to the contrary is promotional of and complementary to those sales.

Moreover, consumers use ringtones in a fundamentally different way than they use either permanent downloads or the Music Choice service. Ringtones are lifestyle products, purchased to personalize one's phone. Users do not buy them to listen to the songs. As such, the user experience and value to the consumer of a ringtone is not remotely comparable to that of the Music Choice service.

c. Interactive webcasting services are <u>fundamentally different than Music Choice</u>

Interactive webcasting is also a fundamentally different service than Music Choice. With interactive webcasting, users are able to select the specific recordings that they want to hear, but do not own them and cannot transfer them between devices, though users can typically access interactive webcasting services on multiple devices and from any location. The ability to listen to any particular song whenever and wherever the user wishes is very much like owning a song, and the on-demand nature of the service to a large degree replaces the need to buy recordings. Interactive webcasting therefore substitutes for the record labels' primary revenue stream (sales of copies) in a way that Music Choice's pre-programmed music service does not. With Music Choice, users cannot select a specific song, only a genre of music over a specific channel. Music Choice's service is available only as part of a consumer's cable television service and not on a variety of internet-connected devices outside the home. The Music Choice service exposes the user to music such that if the user wants to hear a particular recording again, he must purchase it (or subscribe to a licensed interactive webcasting service as a substitute for that purchase). Music Choice therefore promotes and complements the sale of music and stimulates the record label's primary revenue stream, rather than substitutes for it.

The value of an interactive webcasting service to the user is also very different from the value of Music Choice's residential music service. For the reasons noted above, interactive webcasting is like having millions of CDs in a subscriber's personal collection, limited only by the size of the catalog of the particular interactive webcasting service. The value of a particular interactive service to the user comes almost exclusively from the size of the webcaster's catalog, which in turn is dependant solely upon the number of record labels from which the interactive service obtains a direct license. Subscribers do not listen to Music Choice when they want to hear specific songs. The user only selects a genre of music and wants Music Choice to choose the specific songs played. The value to the user, and that which differentiates Music Choice from its competitors in the cable radio market, is the creative decisions Music Choice programmers make to select which songs the user hears and the order in which those songs are heard. Music Choice's competitive value is thus derived primarily from Music Choice's programming efforts, not the record labels' catalogs, which are equally available to all cable music services.

There is another important reason why the rates paid by interactive webcasters cannot be relied upon as a fair, market-based benchmark. Those rates are the product of an immature and unstable market (even after ten years), where the licensing deals struck with the record companies are not based (neither on the buyer nor seller side) upon traditional long-term business concerns. Rather, the deals are driven, on both sides, by entirely ancillary goals that do not reflect a typical willing buyer / willing seller business deal and certainly do not incorporate any of the Section 801(b) policy objectives.

As evidence of this, in the more than ten years that interactive webcasting services have existed and been in the market, not a single one has ever turned a profit on an annual basis, much less on a cumulative basis. In fact, over ten years after launching one of the earliest interactive webcasting services, Rhapsody is still losing money every quarter.[1] This

[1] Rhapsody's continued failure to produce any profit even after ten years is disclosed in the public filings of Real Networks, which is a part owner of Rhapsody. Copies of those recent public filings are attached as Exhibits MC 67 and MC 68. Page seven of MC 67 (Real Networks' most recent 10-Q) separately reports

inability to turn a profit is driven largely by the license fees extracted by the record labels. The interactive webcasters have to agree to these rates to launch and maintain their entry into the market, because, as noted above, the services compete for users (and perhaps more importantly investors) based upon the size of their music catalogs. Therefore, an interactive webcaster must have licenses with all the major labels and as many of the independents as possible. Moreover, interactive webcasters have to obtain licenses with at least all of the major labels to secure venture capital financing to keep their businesses going.

Almost all of the original, and many of the more recent, interactive webcasters have gone out of business entirely. Examples include Pressplay, Ruckus, MusicMatch On Demand, MusicGremlin, Lala Media, Yahoo! Music Unlimited, iMeem, and Spiral Frog. Those that remain in business can only do so by obtaining repeated infusions of additional capital. One might wonder why venture capital firms would put money into and continue to fund webcasting services with no hope of long-term profitability. The answer is that these firms are not primarily concerned with the long-term prospects of the companies, either. Instead, they hope to make money by building up the perceived value of a company and then selling it at a higher price. Thus, as long as they can maintain the perception that these webcasters will someday be profitable, they believe they can flip the companies at a profit. That said, according to accounts in music industry trade publications it seems that even the venture capital firms are finally starting to lose their appetites for these investments and those funding sources are starting to dry up.

Rhapsody's losses from 2011 and the first quarter of 2012. Page 13 of MC 68 (Real Networks' 2011 10-K) describes the history of Rhapsody's failure to generate a profit and the risk that Rhapsody may never be able to generate a profit.

On the seller side, the record labels do not particularly care whether the licensed webcasters ever turn a profit or even stay in business. At least up to this point, as webcasters have gone out of business, new services have entered the market with new venture capital funding, as described above. Moreover, I understand that the record labels typically demand very large advance payments and minimum guarantees from licensed interactive webcasters. Because of these large advances and guarantees, the record labels wind up getting paid, irrespective of the health or survival of the licensed webcaster. As long as venture capital keeps flowing into the market, the record labels can continue to siphon off that money in the form of these advances and guarantees, without regard to whether any of the licensed services can stay in business. Indeed, the very fact that the record companies demand such large advances and guarantees indicates that they know that the services will not stay in business for very long.

The record companies have repeatedly and publicly acknowledged this dynamic. For example, David Ring, one of the heads of UMG's global digital business division, spoke on this point earlier this year at the San Francisco MusicTech industry conference. He was appearing on a panel with Larry Marcus, who specializes in venture capital deals in the digital music market for Walden Venture Capital. In response to Mr. Marcus's noting that, from his experience in funding digital music services, the record company up-front payment and royalty demands created an "insurmountable" obstacle to profitability for the services, Mr. Ring countered that it was not the record industry's problem that venture capital firms were choosing to fund digital music services that did not have a sufficient revenue model to make them profitable. For one industry news source's reporting on this exchange, see http://www.digitalmusicnews.com/permalink/2012/120214huge.

This article prompted a former record company employee, who had worked in the industry for almost seventeen years at various labels and had been directly involved in early digital music service licensing, to write his own response. In that response, he described the record company licensing model for interactive webcasters as one of "extortion," and contrasted it with the ways in which the record companies used to work cooperatively with physical retailers to help them maintain healthy long-term businesses. In the ensuing comments section associated with his article, he explained:

> You know why the labels require huge advances? Because they can, because the law allows them to, especially with interactive streaming services, which are not covered under statutory licensing. And also because, and I know this because I sat in the meetings and heard it dozens of times, "get the advance, cash the check, get it on the books for this year, we need to show digital revenue, if these guys go out of business next year because they made a bad deal, f*** them, we chased the check already."
>
> That mentality still prevails, it is not about working together to build a sustainable business that works for everyone in the chain. . . .
>
> The labels are not "funding companies that have no revenue model," that's a completely bulls*** spin on what actually happens. They're collecting a stiff toll on a bridge that an optimist wants to cross, and when he gets to the other side, he's broke and starves to death.

http://www.digitalmusicnews.com/permalink/2012/120216retailers

Notably, less than one month after Mr. Ring made his statements at San Francisco MusicTech, essentially blaming the venture capital firms for investing in digital music services that cannot make a profit under the royalty terms extracted by the record companies, Francis Keeling, another UMG global digital business executive, published an opinion-editorial in the Financial Times, urging venture capitalists to continue investing in these same digital music services and noting that "a key part of [UMG's] growth will come from external investment in new digital services."

Because of these unusual dynamics, interactive webcasting deals cannot reasonably be considered the product of a healthy, functioning business market and the rates obtained in that market should not serve as a comparable for the rate to be paid by Music Choice for the sound performance license. Moreover, the parties that negotiated these license agreements clearly do not, in any way, set the rates and terms in a way meant to satisfy the Section 801(b) policy objectives, nor is there any indication those policy objectives are even considered in these negotiations.

d. Additional reasons why Music Choice's PSS service is fundamentally different from SoundExchange's proposed benchmark services

Music Choice's cable radio service is fundamentally different from these other digital music services in several other significant ways as well. Music Choice sells its programming to cable companies and other multi-channel video programming distributors ("MVPDs"), not directly to consumers. Consumers in turn receive Music Choice as part of a basic digital tier of cable service, but consumers do not pay a separate fee to receive Music Choice. The service seems "free" to cable subscribers. This dynamic evolved over time after Music Choice was unsuccessful in getting cable subscribers to pay a separate fee for its service. In sharp contrast, digital download re-sellers, ringtone re-sellers and interactive webcasters are all able to sell their products or services directly to consumers.

Additionally, Music Choice's music channels are packaged as ancillary to the video channels (television networks, ESPN, Comedy Central, etc.) provided by the MVPDs. In its negotiations with the MVPDs, Music Choice competes primarily with these other cable channels for its share of the basic cable subscriber fee. The typical Music Choice listener uses Music Choice as background music in the living room or bedroom (the places most likely to have cable television). Moreover, many subscribers who get Music Choice as part of their basic cable service do not actually use Music Choice. Music Choice obtains its revenue from all cable subscribers regardless of whether they view or listen to any particular channel, and in some cases regardless of whether they receive Music Choice at all because Music Choice is typically paid on a "per basic" basis (*i.e.*, for all cable subscribers), whereas Music Choice is delivered only to homes with digital service. By extension, the record labels and recording artists, who are paid a percentage of Music Choice's revenues, obtain their royalties from all subscribers to Music Choice's MVPDs, including subscribers who do not listen to any of the music or even receive the Music Choice channels.

All of these factors, which the cable companies view as evidence of a relatively low monetary value ascribed to Music Choice's service by cable subscribers, is reflected in the continued downward pressure on the rates Music Choice can negotiate in the market as described in my direct testimony. None of these factors are present in any of the markets for SoundExchange's proposed benchmark services, all of which command vastly higher rates from consumers.

An Increased Rate For the PSS License Would Not Add Anything To The Record Companies' Incentive To Produce And Release Recordings

Dr. Ford claims that increased royalty payments for the PSS license would inherently cause the record labels to produce and release more recordings. (Ford WDT, p. 19) This claim is demonstrably false.

The amount of money received by each record label from the PSS is so small in the context of a record label's budget as to be irrelevant. Even if the rate were ten times higher, this would still be the case. Such an increase would not even be noticed by record label management, much less used to fund incrementally additional recordings.

Even if the additional revenue were significant, there is no reason to think that a record label would have any incentive to use that additional revenue to release additional recordings. According to the record labels, the vast majority of their releases lose money. Thus, they are far more likely to simply take more profits from any additional revenue, without releasing any incrementally additional recordings that are likely to lose money.

Moreover, releasing more recordings will not lead to any additional revenue from Music Choice. SoundExchange distributes the PSS royalties to record labels based upon the relative percentage of plays each label receives on Music Choice's channels, not the number of different recordings played. Music Choice only plays a tiny percentage of any record label's total catalog, however, and makes its programming decisions based upon the creative judgment of its programming staff. Thus, merely adding new recordings to a record label's catalog in no way assures that Music Choice will actually play that recording. Even if it did, however, Dr. Ford's false assumption implies that all of the record labels would release additional recordings (because they all would be receiving higher PSS royalty payments) and thus there would not necessarily be any net incremental increase in royalties to any of the record companies from those additional releases.

SoundExchange's Proposed Rate of 45% Would Put Music Choice Out Of Business

SoundExchange's proposed rate of 45% of gross revenue would have a devastating effect on Music Choice. As set out in our direct case, even under the existing 7.25-7.5% rate, Music Choice has struggled, and in some years failed, to generate even a small annual profit and is nowhere near generating a reasonable return on its partners' investments. Increasing that already-too-high rate to 45% would prevent Music Choice from ever earning a profit and would simply drive Music Choice out of business.

In my earlier testimony, I included an exhibit showing Music Choice's historical financial performance, and projecting Music Choice's results out to 2017 using the current royalty rates, under three different sets of assumptions with respect to Music Choice's ability to maintain its market share. The following similar charts will help demonstrate the impact of SoundExchange's proposed rate.

a. Historical Performance at Actual Rates vs. Proposed Rate

Attached as Exhibit MC 69 are two tables, demonstrating Music Choice's historical financial performance. Table 1 shows the actual historical financial performance of Music Choice's residential music service through 2011. Table 1.A shows how that actual performance would have been impacted if the sound recording royalty rate had been set at 45% of revenue during the current rate period. As these charts indicate, had the PSS royalty been set during the current rate period at 45%, the rate SoundExchange claims is the current "market rate" for the PSS, Music Choice would have incurred unsustainable losses.

b. Projections at Current Rate

Attached as Exhibit MC 70 are three tables, similar to the tables I submitted with my direct testimony, showing historical financial performance and Music Choice's current projections of future performance if the PSS rate stays at its current rate, under three different potential scenarios regarding Music Choice's ability to maintain its current affiliate relationships. Table 2 shows Music Choice's projected financial performance if the sound recording royalty rate stays at 7.5%, assuming the best case scenario in which Music Choice does not lose any market share. Table 2.A shows Music Choice's projected financial performance if the sound recording royalty rate stays at 7.5%, assuming a likely downside scenario in which [redacted]

These tables differ slightly from the tables submitted with my direct testimony due to one error correction[2], recent changes in Music Choice's internal revenue projections driven by business developments that occurred after the filing of my direct testimony, and the use of actual figures for 2011 that were not available at the time of my written direct testimony. However, these new versions similarly show the precarious nature of Music Choice's

[2] During the direct phase hearing, it was brought to my attention that the projections of the "rights and other" cost line were incorrect. Upon investigation, we realized this error was due to an error in the spreadsheet formula, and for these tables we have fixed that error.

projected financial performance if the current PSS rate were carried forward, and how that rate will continue to prevent Music Choice from realizing any return, much less a reasonable rate of return, on its partners' investments.

c. Projections Using SoundExchange's Proposed Phase-In of Alleged "Market" Rate

Attached as Exhibit 71 are three tables demonstrating Music Choice's projected financial performance if SoundExchange's alleged "market rate" were phased in from 15% to 45% during the next rate period as set forth in SoundExchange's rate proposal. As with the other projections, Table 3 shows Music Choice's projected financial performance assuming the best case scenario in which Music Choice does not lose any market share. Table 3.A shows Music Choice's projected financial performance assuming a likely downside scenario in which [redacted] Finally, Table 3.B shows Music Choice's projected financial performance [redacted]

d. Conclusion on effect of SoundExchange's rate proposal

The results speak for themselves. If Music Choice's rate had been set at 45% of revenue in the past, our losses would have been so much greater that we could not have made it to this point. If our rate were to be increased to 45% as a result of this proceeding, even if phased in over five years, the effect would be no less dire. Even under our most optimistic assumptions, SoundExchange's rate proposal would cause Music Choice to incur significant losses every year during the next rate period, and our accumulated losses from almost 25 years of operation would almost double during that five-year period. There is simply no way that Music Choice could continue operations if it were forced to endure such losses.

It is important to note that Music Choice is not arguing that the rate must always be set at a rate that keeps Music Choice from going out of business under any circumstances. However, the very reason Congress chose to create the compulsory license when it granted sound recording copyright owners an entirely new revenue stream in 1995 and furthermore chose (and later grandfathered) a policy-based rate-setting standard instead of a market rate standard, was to ensure that the sound recording royalty rate itself would not cause an otherwise well run PSS to fail. As I demonstrated in my direct testimony, Music Choice has continuously offered (and constantly improved) a viable music service, which is well received by consumers, priced above its competitors, and widely distributed by a well-managed and cost efficient business. Under these circumstances, and where setting a fair rate will in fact make the difference between Music Choice's long-term survival and failure, SoundExchange's proposed increase to 45% of revenue must be a non-starter.

If Music Choice Were To Cease Operations, Both The PSS Market And The Broader Market For Cable Radio Services Would Suffer Severe Disruption

Dr. Ford claims that even if Music Choice went out of business from a raise in rates, that vacuum would quickly be filled by various "competitors." Dr. Ford's speculation on this point does not reflect market realities. As a preliminary matter, both the legislative histories of the DPRA and DMCA as well as the prior appellate decision by the Librarian of Congress make clear that when setting rates for the PSS (unlike when setting rates for services that entered the market after the passage of the DPRA and DMCA), the fourth policy factor relates to disruption of the PSS services' businesses and not any broader digital music service market. As I testified during the direct phase of this proceeding, the PSS market has already been disrupted by the existing rate. The original DMX no longer exists, and Muzak has never attempted to expand beyond its one affiliate, Dish Network. Driving Music Choice out of business would effectively eliminate over three-quarters of the PSS market.

Even if the Judges were to consider the broader cable radio market, Music Choice has no direct or even indirect competitors that would be able to quickly fill the void that would be created by Music Choice's exit from the market.

With respect to interactive and customized webcasters like Rhapsody and Pandora, those services are very different from a programming and user experience perspective than Music Choice's curated music channels. The MVPDs do not view them as substitutes for Music Choice because the user experience is so very different, and no MVPD has replaced Music Choice with any of these services. The near-term competitive threat to Music Choice from these types of services is not one of displacement of, or substitution for, Music Choice. Instead, the immediate threat from interactive or customized music services, whether provided over-the-top ("OTT") or as an app on the cable box, is that our cable affiliates will use their presence on the television to argue that Music Choice's channels are worth less. In any event, given that they have not entered Music Choice's market to this point, it is highly unlikely that they would be able suddenly or quickly to do so simply because Music Choice exited the market. And even if they did, their services are so different that they could not actually be considered a replacement for Music Choice's curated cable radio channels.

With respect to Music Choice's direct competition, by which I mean services that actually provide pre-programmed music channels as part of a residential cable or satellite television package, none of those competitors could quickly or easily take Music Choice's place if we exited the market. The only services in this category over the past ten years have been the so-called CABSAT services: MTV's Urge service, Sirius XM, the new DMX, and a new Canadian service called Galaxie.

With respect to Urge, MTV entered the CABSAT market for only a short time, beginning in 2007. Although Urge was able to take away some of Music Choice's affiliates by undercutting our price and/or bundling the service along with MTV's popular video channels, the Urge cable radio channels were not as popular with subscribers as Music Choice's channels and MTV discontinued the Urge cable radio service in 2010. We have since regained many of the affiliates we had lost to Urge, and in all such instances listening intensity increased substantially after Music Choice replaced Urge. Having left the market this way, it is doubtful that MTV would want or be able to re-enter, even if Music Choice went out of business.

Turning to Sirius XM, it has only one affiliate, Dish Network. Sirius XM provides a subset of the music channels from its satellite radio service to Dish Network at a very low rate in order to entice Dish Network subscribers to pay for Sirius XM in their cars. Because Sirius XM cannot command more than a nominal fee for its CABSAT service and provides the service solely for promotional purposes, Sirius XM has not tried to expand its CABSAT service beyond Dish Network, does not attempt to sell against us in the broader cable market, and would certainly have no business reason to replace Music Choice throughout the cable market if Music Choice were driven out of the market by SoundExchange's proposed rates.

With respect to the DMX CABSAT service, like Sirius XM it only has one affiliate in the residential space, DirectTV, and does not attempt to sell against us in the broader cable market. Also like Sirius XM, DMX agreed to provide its music channels to DirecTV practically for free as a means to support its primary line of business. In DMX's case, that primary business is commercial background music. In order to provide its commercial service through DirecTV, DMX had to agree to give DirecTV the residential music channels at a very low rate [redacted] A Canadian background music company that purchased Muzak in 2011, Mood Media, also recently acquired DMX. Thus, even if DMX does not exit the CABSAT market completely, it has absolutely no business incentive to expand beyond its deal with DirecTV.

The only other direct competitor to Music Choice in the cable radio market is a music service called Galaxie, offered by Canadian company Stingray Digital. Galaxie is a very recent entrant into the U.S. cable radio market. It is the dominant cable radio service in Canada. As noted in my direct testimony, the Canadian cable radio market is much more profitable than the U.S. market, and Galaxie's Canadian service is by far its primary business. Galaxie entered the U.S. market by taking a subset of the channels from its Canadian service and offering them to U.S. cable companies at a substantially lower rate than Music Choice. So far, Galaxie has only been able to take a small amount of market share away from Music Choice, and only with smaller affiliates. I do not believe Galaxie could replace Music Choice with our larger affiliates for a number of reasons. Most importantly, and as I have previously explained in my direct testimony, the larger cable companies (which service the vast majority of cable subscribers nationwide) pay far lower rates for cable radio than do the smaller affiliates because of their size. If Galaxie were to attempt to replace Music Choice on any of these larger cable systems, its higher rights costs would likely lead to significant losses. Indeed, to replace Music Choice on the larger affiliates, those affiliates would require that Galaxie bundle at least a video on demand service[3] with the audio channels at no additional cost, like Music Choice does. [redacted]

SoundExchange's Proposed Changes To The PSS Regulations Are Unjustified And Unsupported And Would Adversely Impact Music Choice To The Sole Benefit of SoundExchange

SoundExchange has given no adequate justification for the changes it seeks to the PSS regulations, many of which are substantive changes that would adversely impact Music Choice. The parties have been operating under the existing regulations, without substantive

[3] Notably, if Galaxie (or any other market entrant) were to attempt to provide any music video offerings as part of its service, the development and licensing of such video channels would take substantial effort and time. The licensing alone would take years, as it did for Music Choice.

change for fifteen years, without any evidence of a problem. Any changes after fifteen years will cause at the very least extreme inconvenience to Music Choice and would introduce new uncertainties by changing so much of the existing language. Moreover, many of the changes are substantive changes that take away rights and protections Music Choice presently has. After fifteen years, any changes to the regulations should require a showing of need. SoundExchange has failed to do this. Instead, SoundExchange has clearly selected its proposed changes to benefit itself without any regard for objectivity or fairness.

Even though SoundExchange claims it merely wants to conform the PSS regulations with the SDARS regulations, it notably wants to keep the regulations different with respect to at least one provision, the audit fee shifting threshold, because the PSS regulations are more favorable to SoundExchange than the SDARS regulations on this point. This alone shows that SoundExchange is cherry picking its changes and its primary interest is gaining advantage rather than conforming the regulations.

The specific substantive changes proposed by SoundExchange that will most adversely impact Music Choice include:

i. Proposal p. 28, Section 382.5(c) – Use of confidential information. SoundExchange removed the reference to employees and agents of the Collective as being subject to the limitations on use of the PSS's confidential information. This effectively nullifies the confidentiality protections because it would seemingly allow SoundExchange's employees and agents to use Music Choice's confidential information in ways that are meant to be prohibited.

ii. Proposal p. 28-29, Section 382.5(d)(1) – SoundExchange seeks to eliminate the existing prohibition on sharing Music Choice's confidential information with employees, agents, etc. of SoundExchange who are also employees of record companies or artists. This change would undermine the primary purpose of the existing confidentiality restrictions, which is to keep Music Choice's confidential information out of the hands of the record labels. Music Choice regularly negotiates licenses and other agreements with the record labels and individual artists, and if the employees or representatives of record labels and artists were allowed to obtain Music Choice's confidential business information that information could be used to Music Choice's disadvantage in business deals unrelated to the PSS license. Moreover, this would create an uneven playing field, where Music Choice would not have reciprocal access to the record companies' confidential business and financial information.

iii. Proposal p. 29, Section 382.5(d)(2) – SoundExchange seeks to eliminate the existing restriction on using an auditor that is an employee or officer of a record company or artist. The one time that SoundExchange audited Music Choice, they asked us to waive this provision so they could use an auditor that was partially owned by or otherwise affiliated with a sound recording copyright owner, and we naively agreed in a gesture of good faith. We were "rewarded" with an audit wherein the auditor was anything but independent and took outrageous positions on alleged underpayments that were based upon aggressive misreadings of the regulations. [redacted] It was quite obvious that the auditor's conduct was driven largely by its affiliation with a record label, and we would never agree to waive this provision again in the future. Indeed, the very concept of a fair, objective audit necessitates the use of an independent auditor.

iv. Proposal p. 29, Section 382.5(d)(3) – SoundExchange is seeking to eliminate the existing provision that limits the confidential information that may be shared with record companies and artists to the statements of account. Again, this eliminates protection of Music Choice's other confidential information for no discernible reason.

v. Proposal p. 30, Section 382.6(c) – SoundExchange is seeking to add entirely new language that, for the first time, provides that only the auditor specified in SoundExchange's notice of intent can conduct an audit and that the audit shall be binding on all parties. First of all, this is inconsistent with Section 382.6(e), which provides that any independent audit conducted in the ordinary course of business can constitute an acceptable verification. Second of all, this change would seem to eliminate Music Choice's existing right to dispute the audit, and as well as its right to litigate the audit dispute if the dispute cannot be settled by agreement. This change removes any protection Music Choice has against an unfair audit. In the example of our prior audit noted above, we apparently would not have had any ability to challenge SoundExchange's audit report and would have been compelled to pay any amount the auditor claimed was underpaid, irrespective of how improper the findings were.

This change is also inconsistent with SoundExchange's own proposed changes to the provisions of Section 382.7(c), which apply to copyright owners' and performers' audits of SoundExchange. In that section, SoundExchange seeks to make an audit of it by copyright owners or performers binding not on all parties (thus not binding on SoundExchange), but only on the auditing parties (the copyright owners and performers). This is yet another example of how SoundExchange is seeking changes that unevenly benefit SoundExchange while burdening the PSS, and even the copyright owners and performers.

vi. Proposal p. 30, Section 382.6(d) – SoundExchange seeks to impose a new requirement that Music Choice provide access to third-party records. Such a requirement would be incredibly burdensome, with a serious potential to adversely impact Music Choice's business relationships with affiliates and any other third parties from whom Music Choice would be required to obtain non-Music Choice records.

Indeed, Music Choice has faced strong resistance from affiliates in the past when we have tried to obtain any commitment to provide us with access to their business records. Notably, this sensitivity is different for Music Choice than it is for Sirius XM or webcasters, which do not provide their services to consumers through third-party affiliates. As with the other proposed changes, SoundExchange has not even hinted at any justification or need for imposing this new burden on Music Choice.

vii. Proposal p. 30, Section 382.6(g) – Although SoundExchange seeks to "conform" most of this audit provision with the analogous SDARS provision, SoundExchange seeks to keep the existing 5% underpayment threshold for shifting the audit fees to Music Choice. In the SDARS decision, the Copyright Royalty Judges rejected SoundExchange's attempt to impose a 5% threshold on the SDARS, noting it was too low and inconsistent with marketplace audit provisions in the record labels' own contracts. There is no reason, and Sound Exchange gives no reason, why the PSS should be treated any differently than the SDARS with respect to this threshold. If the Copyright Royalty Judges were to change any of the regulations, and they should not, they certainly should raise the audit fee-shifting threshold to 10% for the same reasons the Judges set that threshold at 10% in the SDARS decision.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct.

Executed in New York, New York on the 2nd day of August, 2012

David J. Del Beccaro

CERTIFICATE OF SERVICE

I, Ngoc K. Niblack, do hereby certify that copies of the public version of Corrected Rebuttal Testimony of David J. Del Beccaro was sent via electronic mail on the 8th day of August, 2012 and Federal Express on the 8th day of August, 2012, to the following:

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Ngoc K. Niblack

MC 67

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended March 31, 2012

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 0-23137

RealNetworks, Inc.
(Exact name of registrant as specified in its charter)

Washington (State of incorporation)	**91-1628146** (I.R.S. Employer Identification Number)
2601 Elliott Avenue, Suite 1000 **Seattle, Washington** (Address of principal executive offices)	**98121** (Zip Code)

(206) 674-2700
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of the registrant's Common Stock outstanding as of April 25, 2012 was 34,755,847.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

REALNETWORKS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 83,332	$ 106,333
Short-term investments	83,681	78,739
Trade accounts receivable, net of allowances for doubtful accounts and sales returns	40,160	41,165
Deferred costs, current portion	1,338	1,424
Prepaid expenses and other current assets	24,984	21,902
Total current assets	233,495	249,563
Equipment, software, and leasehold improvements, at cost:		
Equipment and software	108,173	104,352
Leasehold improvements	26,224	25,947
Total equipment, software, and leasehold improvements, at cost	134,397	130,299
Less accumulated depreciation and amortization	95,672	92,825
Net equipment, software, and leasehold improvements	38,725	37,474
Restricted cash equivalents and investments	10,173	10,168
Equity method investments	7,430	7,798
Available for sale securities	45,630	37,204
Other assets	2,960	2,954
Deferred costs, non-current portion	691	843
Deferred tax assets, net, non-current portion	18,320	18,419
Other intangible assets, net	6,177	7,169
Goodwill	6,297	6,198
Total assets	$ 369,898	$ 377,790
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 17,935	$ 17,151
Accrued and other liabilities	58,783	59,194
Deferred revenue, current portion	11,270	11,835
Accrued loss on excess office facilities, current portion	505	596
Total current liabilities	88,493	88,776
Deferred revenue, non-current portion	220	195
Accrued loss on excess office facilities, non-current portion	1,843	2,151
Deferred rent	2,867	2,944
Deferred tax liabilities, net, non-current portion	1,217	1,443
Other long-term liabilities	9,884	10,994
Total liabilities	104,524	106,503
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $0.001 par value, no shares issued and outstanding:		
Series A: authorized 200 shares	0	0
Undesignated series: authorized 59,800 shares	0	0
Common stock, $0.001 par value authorized 250,000 shares; issued and outstanding 34,541 shares in 2012 and 34,422 shares in 2011	35	34
Additional paid-in capital	578,506	575,515
Accumulated other comprehensive loss	(16,774)	(24,884)
Retained deficit	(296,393)	(279,378)
Total shareholders' equity	265,374	271,287
Total liabilities and shareholders' equity	$ 369,898	$ 377,790

See accompanying notes to unaudited condensed consolidated financial statements.

REALNETWORKS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(In thousands, except per share data)

	Quarters Ended March 31, 2012	Quarters Ended March 31, 2011
Net revenue (A)	$ 66,964	$ 87,301
Cost of revenue (B)	27,427	32,066
Gross profit	39,537	55,235
Sale of patents and other technology assets, net of costs (See Note 17)	(1,580)	0
Operating expenses:		
Research and development	17,818	19,895
Sales and marketing	23,796	28,480
General and administrative	13,276	5,622
Restructuring and other charges	1,609	6,904
Total operating expenses	56,499	60,901
Operating income (loss)	(18,542)	(5,666)
Other income (expenses):		
Interest income, net	644	379
Equity in net loss of Rhapsody investment	(368)	(3,281)
Other income (expense), net	1,475	(122)
Total other income (expenses), net	1,751	(3,024)
Income (loss) before income taxes	(16,791)	(8,690)
Income tax benefit (expense)	(224)	(3,615)
Net income (loss)	$(17,015)	$(12,305)
Basic net income (loss) per share	$ (0.49)	$ (0.36)
Diluted net income (loss) per share	$ (0.49)	$ (0.36)
Shares used to compute basic net income (loss) per share	34,488	34,066
Shares used to compute diluted net income (loss) per share	34,488	34,066
Comprehensive income (loss):		
Unrealized investment holding gains (losses), net of tax	$ 8,494	$ (7,066)
Foreign currency translation gains (losses)	(384)	2,553
Total other comprehensive income (loss)	8,110	(4,513)
Net income (loss)	(17,015)	(12,305)
Comprehensive income (loss)	$ (8,905)	$(16,818)
(A) Components of net revenue:		
License fees	$ 14,956	$ 18,414
Service revenue	52,008	68,887
	$ 66,964	$ 87,301
(B) Components of cost of revenue:		
License fees	$ 3,272	$ 5,246
Service revenue	24,155	26,820
	$ 27,427	$ 32,066

See accompanying notes to unaudited condensed consolidated financial statements.

REALNETWORKS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Quarter Ended March 31, 2012	Quarter Ended March 31, 2011
Cash flows from operating activities:		
Net income (loss)	$(17,015)	$(12,305)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,118	3,819
Stock-based compensation	2,343	3,453
Equity in net loss of Rhapsody	368	3,281
Excess tax benefit from stock option exercises	0	(26)
Deferred income taxes, net	(19)	(161)
Realized translation gain	(1,611)	0
Other	(3)	105
Net change in certain operating assets and liabilities:		
Trade accounts receivable	1,394	2,794
Prepaid expenses and other assets	(2,738)	(1,705)
Accounts payable	(894)	(7,655)
Accrued and other liabilities	(3,185)	3,214
Net cash provided by (used in) operating activities	(17,242)	(5,186)
Cash flows from investing activities:		
Purchases of equipment, software, and leasehold improvements	(2,798)	(1,165)
Purchases of short-term investments	(9,969)	(22,091)
Proceeds from sales and maturities of short-term investments	5,027	38,020
Net cash provided by (used in) investing activities	(7,740)	14,764
Cash flows from financing activities:		
Proceeds from issuance of common stock (stock options and stock purchase plan)	675	1,101
Excess tax benefit from stock option exercises	0	26
Net cash provided by (used in) financing activities	675	1,127
Effect of exchange rate changes on cash and cash equivalents	1,306	2,385
Net increase (decrease) in cash and cash equivalents	(23,001)	13,090
Cash and cash equivalents, beginning of period	106,333	236,018
Cash and cash equivalents, end of period	$ 83,332	$249,108
Supplemental disclosure of cash flow information:		
Cash received from income tax refunds	$ 39	$ 3,503
Cash paid for income taxes	$ 517	$ 851
Non-cash investing activities:		
Increase (decrease) in accrued purchases of equipment, software, and leasehold improvements	$ 1,430	$ 0

See accompanying notes to unaudited condensed consolidated financial statements.

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REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Quarters Ended March 31, 2012 and 2011

Note 1. Description of Business and Summary of Significant Accounting Policies

Description of Business. RealNetworks, Inc. and subsidiaries is a leading global provider of network-delivered digital media applications and services that make it easy to manage, play and share digital media. The Company also develops and markets software products and services that enable the creation, distribution and consumption of digital media, including audio and video.

Inherent in the Company's business are various risks and uncertainties, including limited history of certain of its product and service offerings. The Company's success will depend on the acceptance of the Company's technology, products and services and the ability to generate related revenue.

In this Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (10-Q or Report), RealNetworks, Inc. and subsidiaries is referred to as "RealNetworks", the "Company", "we", "us", or "our".

Basis of Presentation. The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal, recurring adjustments that, in the opinion of the Company's management, are necessary for a fair presentation of the results of operations for the periods presented. Operating results for the quarter ended March 31, 2012 are not necessarily indicative of the results that may be expected for any subsequent period or for the year ending December 31, 2012. Certain information and disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC).

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2011 (the 10-K).

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In addition, current economic conditions may require the use of additional estimates, and certain estimates we make are subject to a greater degree of uncertainty as a result of the current economic conditions.

Reclassifications. Certain reclassifications have been made to the 2011 consolidated financial statements to conform to the 2012 presentation.

Accumulated Other Comprehensive Income (Loss). The components of accumulated other comprehensive income (loss) consisted of unrealized gains (losses) on marketable securities and foreign currency translation gains (losses), net of applicable tax, as follows (in thousands):

	March 31, 2012	December 31, 2011
Unrealized gains on investments, net of taxes	$ 35,812	$ 27,318
Foreign currency translation adjustments	(52,586)	(52,202)
Accumulated other comprehensive income (loss)	$(16,774)	$ (24,884)

In the quarter ended March 31, 2012, we liquidated an investment in one of our foreign entities and recorded a gain of $1.6 million in Other income (expense), net, in the consolidated statements of operations and comprehensive income (loss) upon the release of the same amount of cumulative foreign exchange translation gain out of accumulated other comprehensive income on the balance sheet.

Note 2. Recent Accounting Pronouncements

With the exception of the item discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the quarter ended March 31, 2012, to be implemented as compared to the recent accounting pronouncements described in the 10-K, that are of significance, or potential significance to RealNetworks.

In September 2011, the FASB issued new guidance related to testing goodwill for impairment, which permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The new guidance became effective for our first quarter of 2012 and did not have a material effect on our consolidated financial statements.

Note 3. Stock-Based Compensation

Total stock-based compensation expense recognized was as follows (in thousands):

	Quarters Ended March 31, 2012	Quarters Ended March 31, 2011
Total stock-based compensation expense	$2,343	$3,453

The fair value of options granted determined using the Black-Scholes model used the following weighted-average assumptions:

	Quarters Ended March 31, 2012	Quarters Ended March 31, 2011
Expected dividend yield	0%	0%
Risk-free interest rate	0.69%	1.76%
Expected life (years)	3.8	4.0
Volatility	58%	54%

No stock-based compensation was capitalized as part of the cost of an asset as of March 31, 2012 or December 31, 2011. As of March 31, 2012, we had $9.0 million of total unrecognized compensation cost, net of estimated forfeitures, related to stock options and restricted stock. The unrecognized compensation cost is expected to be recognized over a weighted-average period of approximately 3 years.

Note 4. Rhapsody Joint Venture

RealNetworks initially formed in 2007 a joint venture with MTV Networks, a division of Viacom International Inc. (MTVN), to own and operate a business-to-consumer digital audio music service known as Rhapsody. Prior to March 31, 2010, we held a 51% interest in Rhapsody and MTVN owned the remaining 49%. On March 31, 2010, restructuring transactions involving Rhapsody were completed, and as a result, effective March 31, 2010 RealNetworks owned approximately 47% of Rhapsody. Subsequent to the restructuring transaction, the operating results of Rhapsody have been accounted for under the equity method of accounting for investments, and our proportionate share of the income or loss is recognized as a component of "Other income (expenses), net" in the statements of operations. As of March 31, 2012 we owned approximately 45% of Rhapsody. RealNetworks continues to provide certain operational transition services to Rhapsody. These transition services are expected to be completed during 2012.

We recorded our share of losses in the operations of Rhapsody of $0.4 million and $3.3 million for the quarters ended March 31, 2012 and 2011, respectively. The carrying value of our Rhapsody investment was $7.2 million as of March 31, 2012.

Summarized financial information for Rhapsody, which represents 100% of their financial information (in thousands):

	Quarters Ended March 31, 2012	Quarters Ended March 31, 2011
Statements of Operations Data:		
Net revenue	$35,170	$32,487
Gross profit	9,612	9,445
Net loss	(1,070)	(6,981)

Note 5. Fair Value Measurements

We measure certain financial assets at fair value on a recurring basis, including cash equivalents, short-term investments, and equity investments of publicly traded companies. The fair value of these financial assets was determined based on three levels of inputs:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities

- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active
- Level 3: Unobservable inputs that reflect our own assumptions

Items Measured at Fair Value on a Recurring Basis

The following table presents information about our financial assets that have been measured at fair value on a recurring basis as of March 31, 2012, and December 31, 2011, and indicates the fair value hierarchy of the valuation inputs utilized to determine such fair value (in thousands).

	Fair Value Measurements as of March 31, 2012			
	Total	Level 1	Level 2	Level 3
Cash equivalents:				
Money market funds	$ 11,347	$ 11,347	$ 0	$ 0
Corporate notes and bonds	18,550	18,550	0	0
Short-term investments:				
Corporate notes and bonds	46,524	46,524	0	0
U.S. government agency securities	37,157	37,157	0	0
Restricted cash equivalents and investments	10,173	10,173	0	0
Equity investments:				
Publicly traded investments	45,630	45,630	0	0
Total	$169,381	$169,381	$ 0	$ 0

	Fair Value Measurements as of December 31, 2011			
	Total	Level 1	Level 2	Level 3
Cash equivalents:				
Money market funds	$ 6,544	$ 6,544	$ 0	$ 0
Corporate notes and bonds	20,697	20,697	0	0
Short-term investments:				
Corporate notes and bonds	39,254	39,254	0	0
U.S. government agency securities	39,485	39,485	0	0
Restricted cash equivalents and investments	10,168	10,168	0	0
Equity investments:				
Publicly traded investments	37,204	37,204	0	0
Total	$153,352	$153,352	$ 0	$ 0

Investments in marketable securities classified as short-term investments and equity investments of public companies are measured at fair value using quoted market prices and are classified within Level 1 of the valuation hierarchy.

Our equity investments in publicly traded companies consisted of J-Stream Inc., a Japanese media services company, and LoEn Entertainment, Inc., a Korean digital music distribution company. These equity investments are accounted for as available for sale. The aggregate cost basis of these securities totaled $10.8 million as of March 31, 2012.

Items Measured at Fair Value on a Non-recurring Basis

Certain of our assets and liabilities are measured at estimated fair value on a non-recurring basis. These instruments are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). During the quarters ended March 31, 2012 and 2011, we did not record any impairments on those assets required to be measured at fair value on a non-recurring basis.

Note 6. Cash, Cash Equivalents, Short-Term Investments, Restricted Cash Equivalents and Investments

Cash and cash equivalents, short-term investments, and restricted cash equivalents and investments as of March 31, 2012, consisted of the following (in thousands):

	Amortized Cost	Estimated Fair Value
Cash and cash equivalents:		
Cash	$ 53,435	$ 53,435
Money market mutual funds	11,347	11,347
Corporate notes and bonds	18,550	18,550
Total cash and cash equivalents	83,332	83,332
Short-term investments:		
Corporate notes and bonds	46,484	46,524
U.S. government agency securities	37,111	37,157
Total short-term investments	83,595	83,681
Total cash, cash equivalents and short-term investments	$166,927	$167,013
Restricted cash equivalents and investments	$ 10,173	$ 10,173

Cash and cash equivalents, short-term investments, and restricted cash equivalents and investments as of December 31, 2011 consisted of the following (in thousands):

	Amortized Cost	Estimated Fair Value
Cash and cash equivalents:		
Cash	$ 79,092	$ 79,092
Money market mutual funds	6,544	6,544
Corporate notes and bonds	20,697	20,697
Total cash and cash equivalents	106,333	106,333
Short-term investments:		
Corporate notes and bonds	39,309	39,254
U.S. Government agency securities	39,413	39,485
Total short-term investments	78,722	78,739
Total cash, cash equivalents, and short-term investments	$185,055	$185,072
Restricted cash equivalents and investments	$ 10,168	$ 10,168

As of March 31, 2012, and December 31, 2011, restricted cash equivalents and investments represented cash equivalents and short-term investments pledged as collateral against a letter of credit in connection with lease agreements.

Realized gains or losses on sales of available-for-sale securities for the quarters ended March 31, 2012 and 2011, were not significant.

Gross unrealized gains and gross unrealized losses on short-term investment securities as of March 31, 2012 and December 31, 2011 were not significant.

Investments with remaining contractual maturities of five years or less are classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations. The contractual maturities of short-term investments as of March 31, 2012, were as follows (in thousands):

	Estimated Fair Value
Within one year	$ 53,521
Between one year and five years	30,160
Total short-term investments	$ 83,681

Note 7. Allowance for Doubtful Accounts Receivable and Sales Returns

Activity in the allowance for doubtful accounts receivable and sales returns is as follows (in thousands):

	Allowance For	
	Doubtful Accounts Receivable	Sales Returns
Balances, December 31, 2011	$ 1,445	$ 668
Addition (reduction) to allowance	(283)	347
Amounts written off	(1)	(136)
Foreign currency translation	26	(0)
Balances, March 31, 2012	$ 1,187	$ 879

No customers accounted for 10% or more of trade accounts receivable as of March 31, 2012. As of December 31, 2011, one customer accounted for 17% of trade accounts receivable. No one customer accounted for more than 10% of total revenue during the quarters ended March 31, 2012 and 2011.

Note 8. Other Intangible Assets

Other intangible assets consisted of the following (in thousands):

	Gross Amount	Accumulated Amortization	Net
Customer relationships	$30,018	$ 25,793	$4,225
Developed technology	29,083	27,230	1,853
Patents, trademarks and tradenames	5,287	5,266	21
Service contracts and other	6,197	6,119	78
Total other intangible assets, March 31, 2012	$70,585	$ 64,408	$6,177
Total other intangible assets, December 31, 2011	$69,631	$ 62,462	$7,169

Note 9. Goodwill

Changes in goodwill were as follows (in thousands):

Balance, December 31, 2011	$ 6,198
Effects of foreign currency translation	99
Balance, March 31, 2012	$ 6,297

Goodwill is assigned to the Company's segments as follows (in thousands):

	March 31, 2012
Core products	$ 778
Emerging products	580
Games	4,939
Total goodwill	$ 6,297

Note 10. Accrued and Other Liabilities

Accrued and other liabilities consisted of (in thousands):

	March 31, 2012	December 31, 2011
Royalties and other fulfillment costs	$ 25,716	$ 26,651
Employee compensation, commissions and benefits	11,057	12,698
Sales, VAT and other taxes payable	10,847	11,389
Deferred tax liabilities—current	237	232
Other	10,926	8,224
Total accrued and other liabilities	$ 58,783	$ 59,194

Note 11. Loss on Excess Office Facilities

RealNetworks completed a business and operational reorganization which led to the reduction in use of office space in the corporate headquarters in Seattle, Washington and one other location. As a result, in 2010 losses were recognized representing rent and contractual operating expenses over the remaining life of the leases, and related write-downs of leasehold improvements to their estimated fair value. The Company regularly evaluates the market for office space. If the market for such space changes further in future periods, the Company may have to revise its estimates which may result in future gains or losses on excess office facilities.

Changes to the accrued loss on excess office facilities were as follows (in thousands):

Accrued loss December 31, 2011	$ 2,747
Less amounts paid, net of sublease income	(399)
Sublease income estimate revision	0
Accrued loss March 31, 2012	2,348
Less current portion	(505)
Accrued loss, non-current portion	$ 1,843

Note 12. Income Taxes

As of March 31, 2012, there have been no material changes to RealNetworks' uncertain tax positions disclosures as provided in Note 14 of the 2011 10-K. We currently anticipate the closure of foreign and domestic income tax examinations in the next twelve months that may decrease our total unrecognized tax benefits by an amount up to $13.7 million as a result of the successful defense of our positions, the settlement and payment of a liability, or a combination thereof. Additionally, we anticipate that our total unrecognized tax benefits may increase by an amount up to $2.8 million as a result of a potential transfer pricing change.

We file numerous consolidated and separate income tax returns in the United States including federal, state and local, as well as foreign jurisdictions. With few exceptions, we are no longer subject to United States federal income tax examinations for tax years before 2008 or state, local, or foreign income tax examinations for years before 1993. RealNetworks, Inc. and/or subsidiaries are under audit by various states and foreign jurisdictions for certain tax years subsequent to 1993.

Note 13. Earnings Per Share

Basic net income (loss) per share (EPS) is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted EPS is computed by dividing net income (loss) by the weighted average number of common and dilutive potential common shares outstanding during the period. Basic and diluted EPS were calculated as follows (in thousands):

	Quarters Ended March 31, 2012	Quarters Ended March 31, 2011
Net income (loss) available to common shareholders	$(17,015)	$(12,305)
Weighted average common shares outstanding used to compute basic EPS	34,488	34,066
Dilutive effect of stock based awards	0	0
Weighted average common shares outstanding used to compute diluted EPS	34,488	34,066
Basic EPS	$ (0.49)	$ (0.36)
Diluted EPS	$ (0.49)	$ (0.36)

During the quarters ended March 31, 2012 and 2011, 5.9 million and 4.0 million shares of common stock, respectively, of potentially issuable from stock options were excluded from the calculation of diluted EPS because of their antidilutive effect.

Note 14. Commitments and Contingencies

Litigation . On November 1, 2011, a lawsuit was filed by Callertone Innovations, LLC ("Callertone") against MetroPCS Wireless, Inc. and MetroPCS Communications, Inc., (collectively, "MetroPCS") in the U.S. District Court for the District of Delaware alleging that MetroPCS infringes Callertone's patents by providing ringback tone services. We agreed to indemnify MetroPCS against the claims based on an indemnity that is claimed to be owed by us. The complaint was served on MetroPCS on January 14, 2012, and we filed our answer on April 9, 2012. We dispute the plaintiff's allegations regarding both the validity of its patents and its claims of infringement against MetroPCS. We are unable to provide meaningful quantification of how the final resolution of this litigation may impact our future consolidated financial statements.

On October 28, 2011, a lawsuit was filed by Callertone Innovations, LLC ("Callertone") against T-Mobile USA, Inc. ("T-Mobile") in the U.S. District Court for the District of Delaware alleging that T-Mobile infringes Callertone's patents by providing ringback tone services. We agreed to indemnify T-Mobile against the claims based on an indemnity that is claimed to be owed by us. The complaint was served on T-Mobile on January 16, 2012, and we filed our answer on April 9, 2012. We dispute the plaintiff's allegations regarding both the validity of its patents and its claims of infringement against T-Mobile. We are unable to provide meaningful quantification of how the final resolution of this litigation may impact our future consolidated financial statements.

In July 2010, the Washington State Office of the Attorney General (Washington AG) sent a letter referencing complaints from consumers relating to RealNetworks' various consumer products since 2005. The letter advised us that we may be violating Washington State's consumer protection laws, and invited us to consider changing certain of our consumer practices. We subsequently met with representatives of the Washington AG to review and discuss the complaints and, although we did not believe that our practices violated the law, we voluntarily made changes to certain of our online order paths through which consumers purchase our subscription products in order to address certain of the Washington AG's concerns.

Notwithstanding the foregoing, in March and September 2011, the Consumer Protection Division of the Washington AG issued civil investigative demands to us requesting information and documents relating to certain of our consumer marketing practices during the period from 2005 to 2011. We are cooperating and are in discussions with the Washington AG regarding the investigation, and have been responding to the Washington AG's requests. The Washington AG has not initiated any enforcement action against us. We do not believe we have violated any laws, but the final outcome of the investigation remains uncertain. In light of the status of the investigation, we accrued $2.4 million for potential amounts associated with the investigation in the quarter ended March 31, 2012, but the investigation could ultimately result in additional expenses, monetary damages, penalties or injunctive relief against us that could have a material adverse impact on our future consolidated financial statements.

On April 25, 2007, a lawsuit was filed by Greenville Communications, LLC in Greenville, Mississippi against a number of cell phone carriers, including our partners T-Mobile USA, Inc. and Alltel Corporation, alleging that they infringe its patents by providing ringback tone services. We agreed to indemnify T-Mobile and Alltel against the claims based on an indemnity that is claimed to be owed by us. On August 27, 2007, our motion to transfer this matter to the U.S. District Court for the District of New Jersey was granted. The parties briefed claim construction, but the case was subsequently stayed pending reexamination of the patents at issue. On December 10, 2009, the U.S. Patent and Trademark Office issued notice of its intent to issue reexamination certificates for the patents in suit. The District Court lifted the stay on the litigation on January 29, 2010 and discovery has resumed. On September 28, 2011, the District Court held a claims construction hearing but has not yet issued a ruling. We dispute the plaintiff's allegations regarding both the validity of its patents and its claims of infringement against our partners. We are unable to quantify in a meaningful way the potential impact of the final resolution of this litigation on our future consolidated financial statements.

From time to time we are, and expect to continue to be, subject to legal proceedings, governmental investigations and claims in the ordinary course of business, including employment claims, contract-related claims, and claims of alleged infringement of third-party patents, trademarks and other intellectual property rights. These claims, including those described above, even if not meritorious, could force us to spend significant financial and managerial resources. We are not aware of any other legal proceedings or claims that we believe will have, individually or taken together, a material adverse effect on our business, prospects, financial condition or results of operations. However, we may incur substantial expenses in defending against third-party claims. In addition, given the broad distribution of some of our consumer products, any individual claim related to those products could give rise to liabilities that may be material to us. In the event of a determination adverse to us, we may incur substantial monetary liability, and/or be required to change our business practices. Either of these could have a material adverse effect on our consolidated financial statements.

Note 15. Segment Information

We have three reporting segments: (1) Core Products, which includes financial results from existing and future software as a service offerings of ringback tones, music on demand, video on demand, storefront services and inter-carrier messaging; systems integration and professional services; Helix software and licenses for handsets; SuperPass; and the Company's international radio subscriptions; (2) Emerging Products, which includes financial results from RealPlayer, including distribution of third-party products, advertising and other revenue, and new products and services that will be introduced over time for consumers or enterprise customers; and (3) Games, which includes all games-related financial results, including game sales, subscriptions services, syndication services, advertising-supported games, and mobile and social games.

Corporate overhead expenses, including but not limited to finance, legal, stock compensation and headquarters facilities are reported in the aggregate as "Corporate" expenses and are not reflected in segment results for the business segments described in the preceding paragraph. Corporate amounts in 2012 include expenses related to sale of patent and other technology assets. Only direct business segment expenses, such as research and development, marketing and certain other business shared services are reflected in the associated business segment results.

RealNetworks reports three reporting segments based on factors such as how the we manage our operations and how our Chief Operating Decision Maker reviews results. Our Chief Operating Decision Maker is considered to be the CEO Staff (CEOS), which includes the Chief Executive Officer, Chief Financial Officer, Executive Vice President and certain Senior Vice Presidents. The CEOS reviews financial information presented on both a consolidated basis and on a business segment basis, accompanied by certain disaggregated information about products and services, geographical regions and corporate expenses for purposes of making decisions and assessing financial performance. The accounting policies used to derive segment results are generally the same as those described in Note 1, *Description of Business and Summary of Significant Accounting Policies* .

Segment results for the quarters ended March 31, 2012 and 2011 were as follows (in thousands):

Core Products

	Quarters Ended March 31,	
	2012	2011
Revenue	$ 37,697	$ 48,107
Cost of revenue	17,828	20,984
Gross profit	19,869	27,123
Operating expenses	18,068	19,386
Operating income (loss)	$ 1,801	$ 7,737

Emerging Products

	Quarters Ended March 31,	
	2012	2011
Revenue	$ 10,159	$ 11,135
Cost of revenue	2,105	1,540
Gross profit	8,054	9,595
Operating expenses	7,546	9,891
Operating income (loss)	$ 508	$ (296)

Games

	Quarters Ended March 31,	
	2012	2011
Revenue	$ 19,108	$ 28,059
Cost of revenue	6,661	8,534
Gross profit	12,447	19,525
Operating expenses	13,430	16,814
Operating income (loss)	$ (983)	$ 2,711

Corporate

	Quarters Ended March 31,	
	2012	2011
Cost of revenue	833	1,008
Sale of patents and other technology assets, net of costs	1,580	0
Operating expenses	17,455	14,810
Operating income (loss)	$ (19,868)	$ (15,818)

Our customers consist primarily of consumers and corporations located in the U.S., Europe and various foreign countries. Revenue by geographic region is as follows (in thousands):

	Quarters Ended March 31,	
	2012	2011
United States	$31,814	$44,469
Europe	16,212	18,960
Rest of the world	18,938	23,872
Total net revenue	$66,964	$87,301

Long-lived assets, consisting of equipment, software, leasehold improvements, other intangible assets, and goodwill by geographic region are as follows (in thousands):

	March 31,	December 31,
	2012	2011
United States	$37,989	$ 38,543
Republic of Korea	3,665	4,063
Europe	2,827	2,949
Rest of the world	6,718	5,286
Total long-lived assets	$51,199	$ 50,841

Net assets by geographic location are as follows (in thousands):

	March 31, 2012	December 31, 2011
United States	$225,196	$ 225,271
Republic of Korea	1,032	1,903
Europe	26,642	30,130
Rest of the world	12,504	13,983
Total net assets	$265,374	$ 271,287

Note 16. Related Party Transactions

Transactions with Rhapsody. See Note 4 Rhapsody Joint Venture for details on the 2010 restructuring transaction involving Rhapsody. Subsequent to the restructuring transaction, we are obligated to provide Rhapsody with certain support services unless earlier terminated by Rhapsody. These support services are expected to be completed during 2012. The support services include information technology and limited operational support provided directly to Rhapsody. The amount of these and other support service costs were based on various measures depending on the service provided, including vendor fees, an allocation of fixed costs and time employees spend on providing services to Rhapsody. RealNetworks allocates the cost of providing these support services and records such allocation as a reduction to the related expense in the period for which it was incurred. During the quarters ended March 31, 2012 and 2011, we charged Rhapsody $0.3 million and $0.9 million, respectively, for the support services.

Transactions with LoEn Entertainment, Inc. In 2008, RealNetworks acquired approximately 11% of the outstanding shares of LoEn Entertainment, Inc. (LoEn). The Company paid market price for the common shares of LoEn, which are traded on the Korean Securities Dealers Automated Quotations. The Company's investment in LoEn is treated as an equity investment of a public company and is marked-to-market each period with resulting gains or losses recognized in accumulated other comprehensive loss as unrealized holding gains/losses on investment. During the quarters ended March 31, 2012 and 2011, we recorded revenue from LoEn of approximately $3.9 million and $4.1 million, respectively. This revenue consisted primarily of sales of application service provider services, which include sales of ringback tones, music-on-demand, video-on-demand, and inter-carrier messaging services. Associated with these transactions, the Company also recorded accounts receivable of approximately $1.5 million as of March 31, 2012. Accounts payable and cost of revenue balances associated with LoEn as of and for the quarters ended March 31, 2012 and 2011 were nominal.

Note 17. Subsequent Event

On April 5, 2012, RealNetworks completed the sale of certain patents, patent applications and related rights held by us, and certain of our assets relating to our next generation video codec technologies to Intel Corporation pursuant to the Asset Purchase Agreement (the "Asset Purchase Agreement"), dated as of January 26, 2012, between the Company and Intel. In accordance with the Asset Purchase Agreement, Intel acquired the assets for a cash purchase price of $120.0 million. In addition, pursuant to the license agreement, dated as of January 26, 2012 (the "License Agreement"), between Intel and the Company, as of April 5, 2012, Intel granted us a non-exclusive, royalty-free, fully paid up, irrevocable (except as set forth in the License Agreement) and worldwide license (without the right to grant sublicenses) to use the patent assets we sold to Intel in connection with our businesses.

Because the transaction closed subsequent to the end of our first quarter of 2012, the gain on the transaction will first be reflected in our financial statements for the quarter ending June 30, 2012. The $120.0 million of cash we received will be presented as a gain on our income statement, net of certain direct costs incurred, in the quarter ending June 30, 2012. We currently estimate that the total of these direct costs will be approximately $3.5 million. Of the $3.5 million of estimated total direct costs, $1.6 million was incurred and is reported in our Statement of Operations and Comprehensive Income (Loss) for the quarter ended March 31, 2012.

The Asset Purchase Agreement provides that we have specified obligations to indemnify Intel for breaches of representations and warranties we made, and covenants we agreed to, in the Asset Purchase Agreement and for certain potential future intellectual property infringement claims brought by a third party against Intel. The amount of any potential liabilities related to our indemnification obligations will not be determined until a claim has been made, but the Asset Purchase Agreement provides that we will indemnify Intel up to the amount of the purchase price we received in the sale.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q and the documents incorporated herein by reference contain forward-looking statements that have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current expectations, estimates, and projections about RealNetworks' industry, products, management's beliefs, and certain assumptions made by management. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," and similar expressions are intended to identify forward-looking statements. All statements contained in this report that do not relate to matters of historical fact should be considered forward-looking statements. Forward-looking statements include statements with respect to:

- *future revenues, operating expenses, income and other taxes, tax benefits, net income (loss) per diluted share available to common shareholders, acquisition costs and related amortization, and other measures of results of operations;*
- *the effects of our past acquisitions and expectations for future acquisitions and divestitures;*
- *the effect on our businesses of the sale of certain patent assets and next generation codec assets to Intel Corporation;*
- *plans, strategies and expected opportunities for future growth, increased profitability and innovation;*
- *the prospects for creation and growth of strategic partnerships and the resulting financial benefits from such partnerships;*
- *the expected financial position, performance, growth and profitability of, and investment in, our businesses and the availability of resources;*
- *our involvement in potential claims, legal proceedings and government investigations, the expected course and costs of existing claims, legal proceedings and government investigations, and the potential outcomes and effects of both existing and potential claims, legal proceedings and governmental investigations on our business, prospects, financial condition or results of operations;*
- *the expected benefits and other consequences from the 2010 restructuring of Rhapsody and from our other strategic initiatives;*
- *our expected introduction of new and enhanced products, services and technologies across our businesses;*
- *the effects of legislation, regulations, administrative proceedings, court rulings, settlement negotiations and other factors that may impact our businesses;*
- *the continuation and expected nature of certain customer relationships;*
- *impacts of competition and certain customer relationships on the future financial performance and growth of our businesses;*
- *the effects of U.S. and foreign income and other taxes on our business, prospects, financial condition or results of operations; and*
- *the effect of economic and market conditions on our business, prospects, financial condition or results of operations.*

These statements are not guarantees of future performance and actual actions or results may differ materially. These statements are subject to certain risks, uncertainties and assumptions that are difficult to predict, including those noted in the documents incorporated herein by reference. Particular attention should also be paid to the cautionary language in Item 1A of Part II entitled "Risk Factors." RealNetworks undertakes no obligation to update publicly any forward-looking statements as a result of new information, future events or otherwise, unless required by law. Readers should, however, carefully review the risk factors included in other reports or documents filed by RealNetworks from time to time with the Securities and Exchange Commission, particularly the Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K.

Overview

We manage our business and report revenue and profit (loss) in three segments: (1) Core Products, (2) Emerging Products and (3) Games. Within Core Products, our revenue is derived primarily from the sale of our software as a service (SaaS) offerings, and within Emerging Products, our revenue is derived primarily from the sale of our RealPlayer media player software and from the associated distribution of third-party products. We report common corporate overhead expenses, including finance, legal, headquarters facilities and stock compensation costs, in the aggregate as Corporate results. Our most significant expenses relate to cost of revenue, compensating employees, and selling and marketing our products and services.

In the first quarter of 2012, our operating results continued to reflect revenue declines in our Core Products and Games segments. Our total revenue decline of $20.3 million for the quarter ended March 31, 2012, compared with the same period in 2011, was nearly all comprised of a decline of $10.4 million in our Core Products segment and a decline of $9.0 million in our Games segment.

Our SaaS business within Core Products continues to experience competitive pricing pressure from carriers and the proliferation of smartphone applications and services, which do not depend on our carrier customers for distribution to consumers. In addition, pricing for our intercarrier messaging services is changing to fixed-price structures, which do not reflect volume increases. In our Games segment, consumer's game play is shifting from downloadable PCs games and online game subscriptions, where we currently generate the large majority of overall Games revenues, to social networks and mobile devices. Since 2011, we have been focusing on developing social games and monetizing social game play experiences. However, the revenue we currently generate from social games is not a significant portion of our Games revenue.

On April 5, 2012, we completed the sale of certain patents, patent applications and related rights and assets relating to our Next Generation Video codec technologies pursuant to the Asset Purchase Agreement between the Company and Intel Corporation dated January 26, 2012. We received gross cash consideration of $120.0 million from the sale, and we intend to invest the proceeds in our businesses.

Condensed consolidated results of operations for the quarters ended March 31, 2012 and 2011 are as follows (dollars in thousands):

	Quarters Ended March 31,			
	2012	2011	$ Change	% Change
Total revenue	$ 66,964	$87,301	$(20,337)	(23)%
Cost of revenue	27,427	32,066	(4,639)	(14)
Gross profit	39,537	55,235	(15,698)	(28)
Gross margin	59%	63%		
Sale of patents and other technology assets, net of costs	1,580	—	1,580	—
Operating expenses	56,499	60,901	(4,402)	(7)
Operating income (loss)	$(18,542)	$ (5,666)	$(12,876)	(227)%

In the quarter ended March 31, 2012, our total consolidated revenue declined by $20.3 million, compared with the year-earlier period. The reduction in revenue resulted from a decline of $10.4 million in our Core Products segment and a decline of $9.0 million in our Games segment, due to the factors described above.

Gross margin declined to 59% from 63% for the year earlier period primarily due to certain costs of revenue that do not decrease in direct proportion to decreases in revenue.

Costs for the sale of patents and other technology assets of $1.6 million related to certain direct expenses incurred in the first quarter of 2012 for the sale transaction with Intel Corporation.

Operating expenses improved by $4.4 million in the quarter ended March 31, 2012, compared with the prior year due primarily to a decline in restructuring costs totaling $5.3 million and reduced personnel and related costs of $5.2 million. These decreases were offset in part by an expense accrual of $2.4 million in the quarter ended March 31, 2012 for potential amounts associated with the pending investigation by the Washington State Attorney General's office. In addition, the first quarter of 2011 included a benefit of $6.4 million related to an insurance reimbursement for previously settled litigation that reduced expense.

See "Segment Operating Results" below for more information and discussion regarding changes in the operating results for each of our reporting segments.

Segment Operating Results

Core Products

The Core Products segment primarily generates revenue and incurs costs from the sales of SaaS services, such as ringback tones, inter-carrier messages, music on demand and video on demand; professional services and system integration services to carriers and mobile handset companies; sales of licenses of our software products such as Helix for handsets; and consumer subscriptions such as SuperPass and international radio subscriptions.

Core Products segment results of operations for the quarters ended March 31, 2012 and 2011 are as follows (dollars in thousands):

	Quarters Ended March 31,			
	2012	2011	$ Change	% Change
Revenue	$37,697	$48,107	$(10,410)	(22)%
Cost of revenue	17,828	20,984	(3,156)	(15)
Gross profit	19,869	27,123	(7,254)	(27)
Gross margin	53%	56%		
Operating expenses	18,068	19,386	(1,318)	(7)
Operating income (loss)	$ 1,801	$ 7,737	$ (5,936)	(77)%

Total Core Products revenue decreased by $10.4 million in the quarter ended March 31, 2012, compared with the year-earlier period, primarily due to reduced revenue from our SaaS offerings of $7.1 million. The decline in SaaS revenue was due primarily to a $4.7 million decline in our ringback tone and ring tone revenues primarily due to a decline in subscribers and to lower intercarrier messaging contract prices that contributed $1.8 million to the decline. Revenue from systems integration, a business we have de-emphasized since 2008, decreased by $1.4 million and revenue from our SuperPass product decreased $1.3 million due to a decline in subscribers.

Cost of revenue decreased $3.2 million in the quarter ended March 31, 2012, compared with the year-earlier period. During the quarter, costs related to our SaaS offerings decreased by $1.3 million and costs related to sales of systems integrations decreased by $1.2 million.

Operating expenses declined by $1.3 million for the quarter ended March 31, 2012, compared with the year-earlier period, primarily due to reductions in personnel and related costs that resulted from our restructuring efforts.

Emerging Products

The Emerging Products segment primarily generates revenue and incurs costs from sales of RealPlayer and its related products, such as the distribution of third-party software products, advertising on RealPlayer websites, and sales of RealPlayerPlus software licenses to consumers. Also included within the Emerging Products segment is the cost to build and develop new product offerings for consumers and business customers.

Emerging Products segment results of operations for the quarters ended March 31, 2012 and 2011 are as follows (dollars in thousands):

	Quarters Ended March 31,			
	2012	2011	$ Change	% Change
Revenue	$10,159	$11,135	$ (976)	(9)%
Cost of revenue	2,105	1,540	565	37
Gross profit	8,054	9,595	(1,541)	(16)
Gross margin	79%	86%		
Operating expenses	7,546	9,891	(2,345)	(24)
Operating income (loss)	$ 508	$ (296)	$ 804	272%

Total Emerging Products revenue decreased by $1.0 million in the quarter ended March, 31, 2012, compared with the year-earlier period, due primarily to lower revenue from the distribution of third-party software.

Cost of revenue increased for the quarter ended March 31, 2012, mainly due to increased costs on certain products.

Operating expenses decreased by $2.3 million in the quarter ended March 31, 2012, compared with the year-earlier period primarily due to reductions in personnel and related costs that resulted from our restructuring efforts.

Games

The Games segment primarily generates revenue and incurs costs from the creation, distribution and sales of games licenses, online games subscription services, advertising on game sites and social network sites, games syndication services, and microtransactions from online and social games, and sales of mobile games.

Games segment results of operations for the quarters ended March 31, 2012 and 2011 are as follows (dollars in thousands):

	Quarters Ended March 31,			
	2012	2011	$ Change	% Change
Revenue	$19,108	$28,059	$(8,951)	(32)%
Cost of revenue	6,661	8,534	(1,873)	(22)
Gross profit	12,447	19,525	(7,078)	(36)
Gross margin	65%	70%		
Operating expenses	13,430	16,814	(3,384)	(20)
Operating income (loss)	$ (983)	$ 2,711	$(3,694)	(136)%

Total Games revenue decreased by $9.0 million in the quarter ended March 31, 2012, compared with the year-earlier period. Lower revenue from license sales and our subscription products contributed approximately $4.2 million and $3.1 million, respectively, to the decline during the period. The decrease in license revenue is a result of a decrease in the number of games sold through our games syndication services, as well as lower sales of mobile games sold through our wholesale channels. Lower subscription revenue is a result of fewer subscribers compared with the year-earlier period.

Cost of revenue decreased by $1.9 million in the quarter ended March 31, 2012, compared with the year-earlier period. The decrease was due to the decrease in partner royalties expense, which has a direct correlation with the decrease in Games revenue. Gross margins decreased for the quarter ended March 31, 2012, due to lower advertising revenue, a higher margin product, as well as increased costs associated with providing our games.

Operating expenses declined by $3.4 million in the quarter ended March 31, 2012, respectively, compared with the year-earlier period. The decrease was primarily due to reductions in marketing expenses, as well as personnel and related costs, of approximately $2.0 million and $0.7 million in the quarter ended March 31, 2012, respectively.

Corporate

Certain corporate-level activity is not allocated to our segments, including costs of: human resources, legal, finance, information technology, procurement activities, litigation, corporate headquarters, legal settlements and contingencies, stock compensation, losses on excess office facilities and employee severance costs.

Corporate segment results of operations for the quarters ended March 31, 2012 and 2011 are as follows (dollars in thousands):

	Quarters Ended March 31,			
	2012	2011	$ Change	% Change
Cost of revenue	$ 833	$ 1,008	$ (175)	(17)%
Sale of patents and other technology assets, net of costs	1,580	0	1,580	100
Operating expenses	17,455	14,810	2,645	18
Operating income (loss)	$(19,868)	$(15,818)	$(4,050)	(26)%

The costs of $1.6 million related to the sale of patents and other technology assets were for certain direct expenses incurred in the first quarter of 2012 for the asset sale transaction with Intel.

Operating expenses increased by $2.6 million in the quarter ended March 31, 2012, compared with the year-earlier period. The increase compared with the prior period was primarily due to the impact of a benefit of $6.4 million related to an insurance reimbursement for previously settled litigation that reduced expense in the first quarter of 2011, and an expense accrual of $2.4 million in the quarter ended March 31, 2012 for potential amounts associated with the pending investigation by the Washington State Attorney General's office. These increases were partially offset by lower restructuring charges of $5.3 million.

Consolidated Operating Expenses

Consolidated operating expenses consist primarily of salaries and related personnel costs including stock based compensation, consulting fees associated with product development, sales commissions, amortization of certain intangible assets capitalized in our acquisitions, professional service fees, advertising costs, restructuring and related charges, and losses on excess office facilities. Operating expenses for the quarters ended March 31, 2012 and 2011 are as follows (dollars in thousands):

	Quarters Ended March 31,			
	2012	2011	$ Change	% Change
Research and development	$17,818	$19,895	$(2,077)	(10)%
Sales and marketing	23,796	28,480	(4,684)	(16)
General and administrative	13,276	5,622	7,654	136
Restructuring and other charges	1,609	6,904	(5,295)	(77)
Total consolidated operating expenses	$56,499	$60,901	$(4,402)	(7)%

Research and development expenses decreased by $2.1 million in the quarter ended March 31, 2012, compared with the year-earlier period. The decline was primarily due to a decrease in personnel and related costs of approximately $1.4 million resulting from our restructuring activities.

Sales and marketing expenses decreased by $4.7 million in the quarter ended March 31, 2012, compared with the year-earlier period. The decline was primarily due to a decrease in personnel and related costs of approximately $2.8 million resulting from our restructuring activities and to lower expenses for marketing and related activities of $1.4 million.

General and administrative expenses increased by $7.7 million in the quarter ended March 31, 2012, compared with the year-earlier period. This increase was primarily due to the impact of a benefit of $6.4 million related to an insurance reimbursement for previously settled litigation that reduced expense in the first quarter of 2011 and an expense accrual of $2.4 million in the quarter ended March 31, 2012 for potential amounts associated with the pending investigation by the Washington State Attorney General's office.

Restructuring and other charges consist of costs associated with the realignment and reorganization of our business operations and primarily include separation costs for employees, including severance and other benefits.

Other Income (Expenses)

Other income (expenses), net for the quarters ended March 31, 2012 and 2011 are as follows (dollars in thousands):

	Quarters Ended March 31,			
	2012	2011	$ Change	% Change
Interest income, net	$ 644	$ 379	$ 265	70%
Equity in net loss of Rhapsody and other equity method investments	(368)	(3,281)	2,913	89
Other income (expense), net	1,475	(122)	1,597	1,309
Total other income (expense), net	$1,751	$(3,024)	$ 4,775	158%

The increase in Other income (expense), net, of $1.6 million was primarily due to a non-cash gain in the quarter ended March 31, 2012, due to the release of a $1.6 million cumulative foreign exchange translation gain out of accumulated other comprehensive income on the balance sheet related to the liquidation of an investment in one of our foreign entities.

Income Taxes

During the quarters ended March 31, 2012 and 2011, we recognized income tax expense of $0.2 million and $3.6 million, respectively, related to U.S. and foreign income taxes. The decrease in income tax expense and the change in income tax expense as a percentage of pre-tax loss during the quarter ended March 31, 2012, was largely the result of an increase in unrecognized tax benefits in the prior year period and a change in our jurisdictional income mix.

The sale of patents and other technology assets to Intel Corporation, which was completed on April 5, 2012 and is described in more detail in Note 17, Subsequent Event, will be recorded as a gain, before certain direct costs, of $120.0 million in the quarter ending June 30, 2012. For tax reporting purposes, this transaction is being considered a discrete item for the quarter ended June 30, 2012 and we currently expect that it will result in incremental tax expense of approximately $24 million for the quarter ended June 30, 2012. Because of our U.S. net operating loss carryforwards and capital loss carryforwards, we do not expect to incur any significant cash tax costs related to this transaction.

As of March 31, 2012, there have been no material changes to RealNetworks' uncertain tax positions disclosures as provided in Note 14 of the 2011 10-K. We currently anticipate the closure of foreign income tax examinations in the next twelve months that may decrease our total unrecognized tax benefits by up to $13.7 million as a result of the successful defense of our positions, the settlement and payment of a liability, or a combination thereof. Additionally, we anticipate that our total unrecognized tax benefits may increase by up to $2.8 million as a result of a potential transfer pricing change.

The majority of our tax expense is due to income in our foreign jurisdictions as we have not benefitted from the losses in the U.S in the first quarter of 2012. We generate income in a number of foreign jurisdictions, some of which have higher tax rates and some of which have lower tax rates relative to the U.S. federal statutory rate. Our tax expense could fluctuate significantly on a quarterly basis to the extent income is lower than anticipated in countries where we have lower statutory tax rates and higher than anticipated in countries where we have higher statutory tax rates. For the quarter ended March 31, 2012, decreases in tax expense from income generated in foreign jurisdictions with lower tax rates in comparison to the U.S. federal statutory rate was offset by increases in tax expense from income generated in foreign jurisdictions having comparable, or higher tax rates in comparison to the U.S. federal statutory rate. As such, the effect of differences in foreign tax rates on the Company's tax expense for the first quarter of 2012 is minimal.

As of March 31, 2012, we have not provided for U.S. federal and state income taxes on certain undistributed earnings of our foreign subsidiaries, since such earnings are considered indefinitely reinvested outside the U.S. If these amounts were distributed to the U.S., in the form of dividends or otherwise, the Company could be subject to additional U.S. income taxes. It is not practicable to determine the U.S. federal income tax liability or benefit on such earnings due to the timing of such future distributions, the availability of foreign tax credits, and the complexity of the computation if such earnings were not deemed to be permanently reinvested. If future events, including material changes in estimates of cash, working capital, and long-term investment requirements necessitate that these earnings be distributed, an additional provision for U.S. income and foreign withholding taxes, net of foreign tax credits, may be necessary.

We file numerous consolidated and separate income tax returns in the United States, including federal, state and local returns, as well as in foreign jurisdictions. With few exceptions, we are no longer subject to United States federal income tax examinations for tax years prior to 2008 or state, local or foreign income tax examinations for years prior to 1993. RealNetworks, Inc. and /or subsidiaries are under audit by various states and foreign jurisdictions for certain tax years subsequent to 1993.

Geographic Revenue

Revenue by geographic region is as follows (dollars in thousands):

	Quarters Ended March 31,			
	2012	2011	$ Change	% Change
United States	$31,814	$44,469	$(12,655)	(28)%
Europe	16,212	18,960	(2,748)	(14)
Rest of world	18,938	23,872	(4,934)	(21)
Total net revenue	$66,964	$87,301	$(20,337)	(23)%

Revenue in the United States declined by $12.7 million in the quarter ended March 31, 2012, compared with the year-earlier period. The decline was due primarily to reductions in revenue generated from our SaaS offerings of $4.8 million and lower sales of games subscriptions and licenses of approximately $4.5 million.

Revenue in Europe declined by $2.7 million in the quarter ended March 31, 2012, compared with the year-earlier period. The decrease was due to lower licensing, subscription and advertising revenue from our Games segment of $3.4 million, offset by an increase in technology licensing revenue in our Core Products segment of $1.0 million.

Revenue in rest of world decreased by $4.9 million in the quarter ended March 31, 2012, compared with the year-earlier period. The decrease in the quarter ended March 31, 2012 was primarily due to lower revenue from our SaaS services of $2.7 million and decreased systems integration revenue of $1.4 million.

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License Fees and Service Revenue

License fees and Service revenue are as follows (dollars in thousands):

	Quarters Ended March 31,			
	2012	2011	$ Change	% Change
License	$14,956	$18,414	$ (3,458)	(19)%
Service	52,008	68,887	(16,879)	(25)
Total net revenue	$66,964	$87,301	$(20,337)	(23)%

License Fees.

License fees decreased by $3.5 million for the quarter ended March 31, 2012, compared with the year-earlier period. Sales of games during the quarter declined by $4.1 million, offset in part by higher unit sales of RealPlayer Plus of $0.4 million compared with the year-earlier period.

Service Revenue.

Service revenue decreased by $16.9 million in the quarter ended March 31, 2012, compared with the year-earlier period. The decline was primarily due to reduced service revenue from our SaaS offerings of approximately $7.1 million and lower sales of our subscription products of $4.8 million.

Cost of License Fees and Service Revenue

Cost of License fees and Service revenues are as follows (dollars in thousands):

	Quarters Ended March 31,			
	2012	2011	$ Change	% Change
License	$ 3,272	$ 5,246	$(1,974)	(38)%
Service	24,155	26,820	(2,665)	(10)
Total cost of revenue	$27,427	$32,066	$(4,639)	(14)%

Cost of License Fees.

Cost of license fees decreased by $2.0 million for the quarter ended March 31, 2012, compared with the year-earlier period. The decrease was primarily due to reduced partner royalties expenses in our Games segment, as a result of the decline in Games revenue.

Cost of Service Revenue.

Cost of service revenue decreased by $2.7 million for the quarter ended March 31, 2012, compared with the year-earlier period. The decrease during the period is primarily due to reduced costs associated with our SaaS services of $1.3 million and reduced costs related to systems integrations of $1.2 million.

New Accounting Pronouncements

See "Note 2 Recent Accounting Pronouncements" to Condensed Consolidated Financial Statements included in Part I, Item 1 of this report for information regarding new accounting pronouncements.

Liquidity and Capital Resources

The following summarizes working capital, cash, cash equivalents, short-term investments, and restricted cash (in thousands):

	March 31, 2012	December 31, 2011
Working capital	$145,002	$ 160,787
Cash, cash equivalents, and short-term investments	167,013	185,072
Restricted cash equivalents and investments	10,173	10,168

The following summarizes cash flows (in thousands):

	Quarters Ended March 31,	
	2012	2011
Cash used in operating activities	$(17,242)	$(5,186)
Cash provided by (used in) investing activities	(7,740)	14,764
Cash provided by (used in) financing activities	675	1,127

Cash used in operating activities consisted of net income (loss) adjusted for certain non-cash items including depreciation, amortization, stock-based compensation, deferred income taxes, and the effect of changes in certain operating assets and liabilities, net of acquisitions.

The higher amount of cash used in operating activities for the quarter ended March 31, 2012 compared to the same period in 2011 was primarily due to changes in the timing of certain payments related to accrued and other liabilities which decreased operating cash flow by $3.2 million for the quarter ended March 31, 2012 and increased operating cash flow by $3.2 million for the quarter ended March 31, 2011, and the higher net loss of $17.0 million for the quarter ended March 31, 2012 compared to the net loss of $12.3 million for the quarter ended March 31, 2011.

In the quarter ended March 31, 2012, cash used in investing activities of $7.7 million was due to purchases, net of sales and maturities, of short-term investments of $4.9 million, and purchases of equipment, software and leasehold improvements of $2.8 million. In the quarter ended March 31, 2011, investing activities provided cash of $14.8 million primarily from the sales and maturities, net of purchases, of short-term investments of $15.9 million.

Financing activities in the quarters ended March 31, 2012 and 2011 provided cash from the proceeds from the exercise of employee stock options.

The declaration and payment of future dividends, as well as the amount thereof, are subject to the discretion of our board of directors and will depend upon our results of operations, financial condition, capital levels, cash requirements, future prospects and other factors deemed relevant by our board of directors. Accordingly, there can be no assurance that we will declare and pay any dividends in the future.

We currently have no planned significant capital expenditures for 2012 other than those in the ordinary course of business. In the future, we may seek to raise additional funds through public or private equity financing, or through other sources such as credit facilities. The sale of additional equity securities could result in dilution to our shareholders. In addition, in the future, we may enter into cash or stock acquisition transactions or other strategic transactions that could reduce cash available to fund our operations or result in dilution to shareholders.

Our principal future cash commitments include office leases. We believe that our current cash, cash equivalents, and short-term investments will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months.

On April 5, 2012, we completed the sale of certain patents, patent applications and related rights and assets relating to our Next Generation Video codec technologies pursuant to the Asset Purchase Agreement between the Company and Intel Corporation dated January 26, 2012. We received gross cash consideration of $120.0 million from the sale, and the net cash proceeds were invested in liquid securities in the U.S.

We do not hold derivative financial instruments or equity securities in our short-term investment portfolio. Our cash equivalents and short-term investments consist of high quality securities, as specified in our investment policy guidelines. The policy limits the amount of credit exposure to any one non-U.S. Government or non-U.S. Agency issue or issuer to a maximum of 5% of the total portfolio. These securities are subject to interest rate risk and will decrease in value if interest rates increase. Because we have historically had the ability to hold our fixed income investments until maturity, we do not expect our operating results or cash flows to be significantly affected by a sudden change in market interest rates in our securities portfolio.

We conduct our operations primarily in five functional currencies: the U.S. dollar, the Korean won, the Japanese yen, the British pound and the euro. We currently do not hedge the majority of our foreign currency exposures and are therefore subject to the risk of exchange rate fluctuations. We invoice our international customers primarily in U.S. dollars, except for certain countries where we invoice our customers primarily in the respective foreign currencies. We are exposed to foreign exchange rate fluctuations as the financial results of foreign subsidiaries are translated into U.S. dollars in consolidation. Our exposure to foreign exchange rate fluctuations also arises from intercompany payables and receivables to and from our foreign subsidiaries.

As of March 31, 2012, approximately $42.6 million of the $167.0 million of cash, cash equivalents, and short-term investments was held by our foreign subsidiaries. If these funds are needed for our operations in the U.S., we may be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations. Additionally, the Company currently has significant net operating losses and other tax attributes that could be used to offset most potential U.S. income tax that could result if these amounts were distributed to the U.S. We utilize a variety of tax planning and financing strategies in an effort to ensure that our worldwide cash is available in the locations in which it is needed. We do not expect restrictions or potential taxes on repatriation of amounts held outside of the U.S to have a material effect on our overall liquidity, financial condition or results of operations.

As of March 31, 2012, we have not provided for U.S. federal and state income taxes on certain undistributed earnings of our foreign subsidiaries, since such earnings are considered indefinitely reinvested outside the U.S. If these amounts were distributed to the U.S, in the future in the form of dividends or otherwise, we could be subject to additional U.S. income taxes. It is not practicable to determine the U.S. federal income tax liability or benefit on such earnings due to the timing of such future distributions, the availability of foreign tax credits, and the complexity of the computation if such earnings were not deemed to be permanently reinvested. If future events, including material changes in estimates of cash, working capital, and long-term investment requirements necessitate that these earnings be repatriated, an additional provision for U.S. income and foreign withholding taxes, net of foreign tax credits, may be necessary.

Off-Balance Sheet Arrangements

Our only significant off-balance sheet arrangements relate to operating lease obligations for office facility leases.

Critical Accounting Policies and Estimates

Critical Accounting Policies and Estimates

The preparation of our financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Our critical accounting policies and estimates are as follows:

- Revenue recognition;
- Estimating music publishing rights and music royalties;
- Estimating recoverability of deferred costs;
- Estimating allowances for doubtful accounts and sales returns;
- Estimating losses on excess office facilities;
- Valuation of equity method investments;
- Valuation of available for sale securities;
- Valuation of long-lived assets;
- Valuation of goodwill;
- Stock-based compensation; and
- Accounting for income taxes.

Revenue Recognition. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is probable. Physical products are considered delivered to the customer once they have been shipped and title and risk of loss have been transferred. For online sales, the products or services are considered delivered at the time the product or services are made available, digitally, to the end user.

We recognize revenue on a gross or net basis. In most arrangements, we contract directly with end user customers, are the primary obligor and carry all collectability risk. In such arrangements, we recognize revenue on a gross basis. In some cases, we utilize third-party distributors to sell products or services directly to end user customers and carry no collectability risk. In such instances, we recognize revenue on a net basis.

In our direct to consumer business segments, we derive revenue through (1) subscriptions of SuperPass within our Core Products segment and subscriptions sold by our Games segment, (2) sales of content downloads, software and licenses offered by our Core Products, Emerging Products and Games segments and (3) the sale of advertising and the distribution of third-party products on our websites and in our games. Prior to April 1, 2010, our direct to consumer business also included the products and services offered by our Music segment, which was primarily sold by the Rhapsody joint venture and included in our Music segment. Beginning on April 1, 2010, revenue from the Rhapsody joint venture is no longer consolidated within our financial statements. We now report our share of Rhapsody's net income or losses as "Equity in net loss of Rhapsody and other equity method investments."

Consumer subscription products are paid in advance, typically for monthly, quarterly or annual duration. Subscription revenue is recognized ratably over the related subscription time period. Revenue from sales of content downloads, software and licenses is recognized at the time the product is made available, digitally, to the end user. Revenue generated from advertising on our websites and from advertising and the distribution of third-party products included in our products is recognized as revenue at the time of delivery.

We also generate revenue through business-to-business channels by providing services within our Core Products segment enabling mobile carriers to deliver audio and video content to their customers and by selling software licenses and products and related support and other services. Revenue generated from services provided to mobile carriers that enable the delivery of audio and video content to their customers is recognized as the services are provided. Setup fees to build these services are recognized ratably upon launch of the service over the remaining expected term of the service.

Non-software revenue arrangements with multiple deliverables are divided into separate units and revenue is allocated using estimated selling prices if the Company does not have vendor-specific objective evidence or third-party evidence of the selling prices of the deliverables. A portion of the revenue related to the sale of software licenses and products and related support and other services is recorded as unearned due to undelivered elements including, in some cases, post-delivery support and the right to receive unspecified upgrades or enhancements on a when-and-if-available basis. Unearned revenue due to undelivered elements is recognized ratably on a straight-line basis over the related products' contract term.

Estimating Music Publishing Rights and Music Royalty Accruals. We must make estimates of amounts owed related to our music publishing rights and music royalties for our domestic and international music services primarily incurred by Rhapsody which was separated from our operating results beginning April 1, 2010. Unsettled obligations incurred prior to April 1, 2010 remain our liability. Material differences may impact the amount and timing of our expense for any period if management made different judgments or utilized different estimates. Under copyright law, we may be required to pay licensing fees for digital sound recordings and compositions we deliver. Copyright law generally does not specify the rate and terms of the licenses, which are determined by voluntary negotiations among the parties or, for certain compulsory licenses where voluntary negotiations are unsuccessful, by arbitration. There are certain geographies and agencies for which we have not yet completed negotiations with regard to the royalty rate to be applied to the current or historic sales of our digital music offerings. Our estimates are based on contracted or statutory rates, when established, or management's best estimates based on facts and circumstances regarding the specific music services and agreements in similar geographies or with similar agencies. While we base our estimates on historical experience and on various other assumptions that management believes to be reasonable under the circumstances, actual results may differ materially from these estimates under different assumptions or conditions.

Estimating Recoverability of Deferred Costs. We defer costs on projects for service revenue and system sales. Deferred costs consist primarily of direct and incremental costs to customize and install systems, as defined in individual customer contracts, including costs to acquire hardware and software from third parties and payroll costs for our employees and other third parties.

We recognize such costs as a component of cost of revenue, the timing of which is dependent upon the revenue recognition policy by contract. For revenue recognized under the completed contract method, costs are deferred until the products are delivered, or upon completion of services or, where applicable, customer acceptance. For revenue recognized under the percentage of completion method, costs are recognized as products are delivered or services are provided in accordance with the percentage of completion calculation. For revenue recognized ratably over the term of the contract, costs are recognized ratably over the term of the contract, commencing on the date of revenue recognition. At each balance sheet date, we review deferred costs to ensure they are ultimately recoverable. Any anticipated losses on uncompleted contracts are recognized when evidence indicates the estimated total cost of a contract exceeds its estimated total revenue.

Assessing the recoverability of deferred project costs is based on significant assumptions and estimates, including future revenue and cost of sales. Significant or sustained decreases in revenue or increases in cost of sales in future periods could result in additional impairments of deferred project costs. We cannot accurately predict the amount and timing of such impairments. Should the value of deferred project costs become impaired, we would record the appropriate charge, which could have a material adverse effect on our financial condition or results of operations.

Estimating Allowances for Doubtful Accounts and Sales Returns. We make estimates of the uncollectible portion of our accounts receivable. We specifically analyze the age of accounts receivable and historical bad debts, customer credit-worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. Similarly, we make estimates of potential future product returns related to current period revenue. We analyze historical returns, current economic trends, and changes in customer demand and acceptance of our products when evaluating the adequacy of the sales returns allowance. Significant judgments and estimates are made and used in connection with establishing allowances for doubtful accounts and sales returns in any accounting period. Material differences may result in the amount and timing of our revenue for any period if we were to make different judgments or utilize different estimates or actual future experience was different from the judgments and estimates.

Estimating Losses on Excess Office Facilities. We made significant estimates in determining the appropriate amount of accrued loss on excess office facilities. If we made different estimates, our loss on excess office facilities could be significantly different from that recorded, which could have a material impact on our operating results.

Valuation of Equity Method Investments. We use the equity method in circumstances where we have the ability to exert significant influence, but not control, over an investee or joint venture. We initially record our investment based on a fair value analysis of the investment. Prior to 2010, most of our equity method investments were purchased with cash which was determined to be fair value. For the investment in Rhapsody as of March 31, 2010, we used multiple valuation models that were based on assumptions of future results, including operating and cash flow projections, to calculate the fair value since we contributed both cash and non-cash items in exchange for our interest. These models were based upon estimates and assumptions relating to future revenue, cash flows, operating expenses, costs of capital and capital purchases. These estimates and assumptions are complex and subject to a significant degree of judgment with respect to certain factors including, but not limited to, the cash flows of long-term operating plans, market and interest rate risk, and risk-commensurate discount rates and cost of capital.

We record our percentage interest in the investee or joint venture's income or loss under this method, which will increase or decrease the value of the investment. We record investee losses up to the aggregate amount of the investment.

We evaluate impairment of an investment valued under the equity method only if events and circumstances warrant. An impairment charge would be recorded whenever a decline in value of an equity investment below its carrying amount is determined to be other than temporary. In determining if a decline is other than temporary, we consider factors such as the length of time and extent to which the fair value of the investment has been less than the carrying amount of the investee or joint venture, the near-term and longer-term operating and financial prospects of the investee or joint venture and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery.

Valuation of Available for Sale Securities . Our investments in publicly traded companies are accounted for as available-for-sale and are carried at current market value. We periodically evaluate whether any declines in fair value of our available for sale securities are other-than-temporary based on a review of qualitative and quantitative factors. For investments with publicly quoted market prices, these factors include the time period and extent by which its accounting basis exceeds its quoted market price. We consider additional factors to determine whether declines in fair value are other-than-temporary, such as the investee's financial condition, results of operations, and operating trends. The evaluation also considers publicly available information regarding the investee companies.

Valuation of Long-Lived Assets. Long-lived assets consist primarily of property, plant and equipment, as well as amortizable intangible assets acquired in business combinations. Long-lived assets are amortized on a straight line basis over their estimated useful lives. We review long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Recoverability of these assets is measured by comparison of their carrying amount to future undiscounted cash flows the assets are expected to generate. If long-lived assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the assets exceeds their fair market value. The impairment analysis of long-lived assets is based upon estimates and assumptions relating to our future revenue, cash flows, operating expenses, costs of capital and capital purchases. These estimates and assumptions are complex and subject to a significant degree of judgment with respect to certain factors including, but not limited to, the cash flows of our long-term operating plans, market and interest rate risk, and risk-commensurate discount rates and cost of capital. Significant or sustained declines in future revenue or cash flows, or adverse changes in our business climate, among other factors, and their resulting impact on the estimates and assumptions relating to the value of our long-lived assets could result in the need to perform an impairment analysis in future interim periods which could result in a significant impairment. While we believe our estimates and assumptions are reasonable, due to their complexity and subjectivity, these estimates and assumptions could vary period to period.

Valuation of Goodwill. We assess the impairment of goodwill on an annual basis, in our fourth quarter, or whenever events or changes in circumstances indicate that the fair value of the reporting unit to which goodwill relates is less than the carrying value. We consider a synthesis of the following important factors that could trigger an impairment review include the following:

- poor economic performance relative to historical or projected future operating results;
- significant negative industry, economic or company specific trends;
- market and interest rate risk;
- changes in the manner of our use of the assets or the plans for our business; and
- loss of key personnel.

In addition, we perform a reconciliation of our market capitalization plus a reasonable control premium to the aggregated implied fair value of all of our reporting units.

If we were to determine that the fair value of a reporting unit was less than its carrying value, including goodwill, based upon the annual test or the existence of one or more of the above indicators of impairment, we would measure impairment based on a comparison of the implied fair value of reporting unit goodwill with the carrying amount of goodwill. The implied fair value of goodwill is determined by allocating the fair value of a reporting unit to its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the goodwill of the reporting unit. To the extent the carrying amount of reporting unit goodwill is greater than the implied fair value of reporting unit goodwill, we would record an impairment charge for the difference. Judgment is required in determining our reporting units and assessing fair value of the reporting units.

The impairment analysis of goodwill is based upon estimates and assumptions relating to our future revenue, cash flows, operating expenses, costs of capital and capital purchases. These estimates and assumptions are complex and subject to a significant degree of judgment with respect to certain factors including, but not limited to, the cash flows of our long-term operating plans, market and interest rate risk, and risk-commensurate discount rates and cost of capital.

Stock-Based Compensation. Stock-based compensation cost is estimated at the grant date based on the award's fair-value as calculated by the Black-Scholes option-pricing model or other appropriate valuation models and is recognized as expense over the requisite service period, which is the vesting period. The valuation models require various highly judgmental assumptions including volatility in our common stock price and expected option life. If any of the assumptions used in the valuation models change significantly, stock-based compensation expense may differ materially in the future from the amounts recorded in our consolidated statement of operations. We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest.

Accounting for Income Taxes. We use the asset and liability method of accounting for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year. In addition, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities and operating loss and tax credit carryforwards are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and operating loss and tax credit carryforwards are expected to be recovered or settled. We must make assumptions, judgments and estimates to determine current provision for income taxes, deferred tax assets and liabilities and any valuation allowance to be recorded against deferred tax assets. Our judgments, assumptions, and estimates relative to the current provision for income tax take into account current tax laws, our interpretation of current tax laws and possible outcomes of future audits conducted by foreign and domestic tax authorities. Changes in tax law or our interpretation of tax laws and future tax audits could significantly impact the amounts provided for income taxes in our consolidated financial statements.

Each reporting period we must periodically assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent that recovery is not more likely than not, a valuation allowance must be established. The establishment of a valuation allowance and increases to such an allowance result in either increases to income tax expense or reduction of income tax benefit in the statement of operations and comprehensive income. Factors we consider in making such an assessment include, but are not limited to, past performance and our expectation of future taxable income, macroeconomic conditions and issues facing our industry, existing contracts, our ability to project future results and any appreciation of our investments and other assets.

As of March 31, 2012, approximately $42.6 million of the $167.0 million of cash, cash equivalents, and short-term investments was held by our foreign subsidiaries.

As of March 31, 2012, we have not provided for U.S. federal and state income taxes on certain undistributed earnings of our foreign subsidiaries, since such earnings are considered indefinitely reinvested outside the U.S. If these amounts were distributed to the U.S., in the form of dividends or otherwise, the Company could be subject to additional U.S. income taxes. It is not practicable to determine the U.S. federal income tax liability or benefit on such earnings due to the timing of such future distributions, the availability of foreign tax credits, and the complexity of the computation if such earnings were not deemed to be permanently reinvested. If future events, including material changes in estimates of cash, working capital, and long-term investment requirements necessitate that these earnings be distributed, an additional provision for U.S. income and foreign withholding taxes, net of foreign tax credits, may be necessary.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following discussion about our market risk involves forward-looking statements. All statements that do not relate to matters of historical fact should be considered forward-looking statements. Actual results could differ materially from those projected in any forward-looking statements.

Interest Rate Risk. Our exposure to interest rate risk from changes in market interest rates relates primarily to our short-term investment portfolio. We do not hold derivative financial instruments or equity investments in our short-term investment portfolio. Our short-term investments consist of investment grade debt securities as specified in our investment policy. Investments in both fixed and floating rate instruments carry a degree of interest rate risk. The fair value of fixed rate securities may be adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Additionally, a declining rate environment creates reinvestment risk because as securities mature the proceeds are reinvested at a lower rate, generating less interest income. See Note 6 "Cash, Cash Equivalents, Short-Term Investments, Restricted Cash Equivalents and Investments" for additional information. Due in part to these factors, our future interest income may be adversely impacted due to changes in interest rates. In addition, we may incur losses in principal if we are forced to sell securities that have declined in market value due to changes in interest rates. Because we have historically had the ability to hold our short-term investments until maturity, we would not expect our operating results or cash flows to be significantly impacted by a sudden change in market interest rates. There have been no material changes in our investment methodology regarding our cash equivalents and short-term investments during the quarter ended March 31, 2012. Based on our cash, cash equivalents, short-term investments, and restricted cash equivalents as of March 31, 2012, a hypothetical 10% increase/decrease in interest rates would not increase/decrease our annual interest income or cash flows by more than a nominal amount.

Investment Risk. As of March 31, 2012, we had investments in voting capital stock of both publicly traded and privately-held technology companies for business and strategic purposes. Our investments in publicly traded companies are accounted for as available-for-sale, carried at current market value and are classified as long-term as they are strategic in nature. We periodically evaluate whether any declines in fair value of our investments are other-than-temporary based on a review of qualitative and quantitative factors. For investments with publicly quoted market prices, these factors include the time period and extent by which its accounting basis exceeds its quoted market price. We consider additional factors to determine whether declines in fair value are other-than-temporary, such as the investee's financial condition, results of operations, and operating trends. The evaluation also considers publicly available information regarding the investee companies. For investments in private companies with no quoted market price, we consider similar qualitative and quantitative factors as well as the implied value from any recent rounds of financing completed by the investee. Based upon an evaluation of the facts and circumstances during the quarter ended March 31, 2012, we determined that no additional other-than-temporary decline in fair value had occurred and therefore no impairment charges were recorded.

Foreign Currency Risk. We conduct business internationally in several currencies. As such, we are exposed to adverse movements in foreign currency exchange rates.

Our exposure to foreign exchange rate fluctuations arise in part from: (1) translation of the financial results of foreign subsidiaries into U.S. dollars in consolidation; (2) the remeasurement of non-functional currency assets, liabilities and intercompany balances into U.S. dollars for financial reporting purposes; and (3) non-U.S. dollar denominated sales to foreign customers. A portion of these risks is managed through the use of financial derivatives, but fluctuations could impact our results of operations and financial position.

Generally, our practice is to manage foreign currency risk for the majority of material short-term intercompany balances through the use of foreign currency forward contracts. These contracts require us to exchange currencies at rates agreed upon at the contract's inception. Because the impact of movements in currency exchange rates on forward contracts offsets the related impact on the short-term intercompany balances, these financial instruments help alleviate the risk that might otherwise result from certain changes in currency exchange rates. We do not designate our foreign exchange forward contracts related to short-term intercompany accounts as hedges and, accordingly, we adjust these instruments to fair value through results of operations. However, we may periodically hedge a portion of our foreign exchange exposures associated with material firmly committed transactions, long-term investments, highly predictable anticipated exposures and net investments in foreign subsidiaries. Some of our unhedged exposures are reconciled through our statement of operations on a mark-to-market basis each quarter, so to the extent we continue to experience adverse economic conditions, we may record losses related to such unhedged exposures in future periods that may have a material adverse effect on our financial condition and results of operations.

Our foreign currency risk management program reduces, but does not entirely eliminate, the impact of currency exchange rate movements.

We have cash balances denominated in foreign currencies which are subject to foreign currency fluctuation risk. The majority of our foreign currency denominated cash is held in Korean won and euros. A hypothetical 10% increase or decrease in the Korean won and euro relative to the U.S. dollar as of March 31, 2012 would not result in more than a nominal amount of unrealized gain or loss.

Foreign currency transaction gains and losses were not material for the quarters ended March 31, 2012 or 2011.

Item 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures.* Based on an evaluation as of the end of the period covered by this report, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act (1) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) *Changes in Internal Controls.* There have not been any changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2012, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Note 14, Commitments and Contingencies to Condensed Consolidated Financial Statements included in Part I, Item 1 of this report for information regarding legal proceedings.

Item 1A. Risk Factors

You should carefully consider the risks described below together with all of the other information included in this 10-Q. The risks and uncertainties described below are not the only ones facing our company. If any of the following risks actually occurs, our business, financial condition or operating results could be harmed. In such case, the trading price of our common stock could decline, and investors in our common stock could lose all or part of their investment.

We need to successfully introduce new products and services to grow our businesses.

Our business is dependent upon the introduction of new products and services, which is subject to a number of risks. The process of developing new, and enhancing existing, products and services is complex, costly and uncertain. Providing products and services that are attractive and useful to subscribers and consumers is in part subject to unpredictable and volatile factors beyond our control, including end-user preferences and competing products and services. Any failure by us to timely respond to or accurately anticipate consumers' changing needs, emerging technological trends or important changes in the market or competition for products and services we plan to introduce could significantly harm our current market share or result in the loss of market opportunities. In addition, we must make long-term investments, develop or obtain appropriate intellectual property and commit significant resources before knowing whether our predictions will accurately reflect consumer demand for our products and services, which may result in no return or a loss on our investments. Furthermore, new products and services may be subject to legal challenge. Responding to these potential claims may require us to enter into royalty and licensing agreements on unfavorable terms, require us to stop distributing or selling, or to redesign our products or services, or to pay damages. If we do not successfully introduce new products and services, our operating results may be materially harmed.

The mobile entertainment market is evolving rapidly and highly competitive.

The market for mobile entertainment services, including our ring back tones, music on demand and video on demand solutions, is highly competitive and evolving rapidly, particularly with the growth in the use of smartphones. Increased use of smartphones has resulted in a proliferation of applications and services that compete with our SaaS services and, in many cases, are not dependent upon our carrier customers to make them available to subscribers. To maintain or enhance our competitive position, we may need to develop new SaaS services that enable our carrier customers to compete with the broad range of applications and other services available in the market. We face competition, and may face future competition, from major media companies, Internet portal companies, content aggregators, wireless software providers and other pure-play wireless entertainment publishers, some of which have greater financial resources than we do. Furthermore, while most of our carrier customers do not offer internally developed services that compete with ours, if our carrier customers begin developing these services internally, we could be forced to lower our prices or increase the amount of service we provide in order to maintain our business with those carrier customers. Increased competition has in the past resulted in pricing pressure, forcing us to lower the selling price of our services. If we are unable to develop or provide services that compete effectively in the mobile entertainment market, our operating results and financial condition may be materially harmed.

Contracts with our carrier customers subject us to significant risks that could negatively impact our revenue or otherwise harm our operating results.

We derive a material portion of our revenue from our SaaS offerings we provide to carriers. Many of our SaaS contracts with carriers provide for revenue sharing arrangements, but we have little control over the pricing decisions of our carrier customers. Furthermore, most of these contracts do not provide for guaranteed minimum payments or usage levels. Because most of our carrier customer contracts are nonexclusive, it is possible that our mobile carrier customers could purchase similar services from third parties and cease to use our services in the future. As a result, our revenue derived under these agreements could be substantially reduced depending on the pricing and usage decisions of our carrier customers. In addition, some of our SaaS contracts require us to incur significant set-up costs prior to the launch of services with a carrier customer. In the fourth quarter of 2011, we reduced our forecast for profitability associated with certain carrier customer contracts for which the total costs exceeded the total revenue we expect to recognize from these contracts, and as a result, we recorded impairment of deferred costs totaling $20.0 million. We cannot provide assurance that we will not record additional impairments or other charges in future periods related to our carrier customer contracts, which would negatively impact our results of operations.

In addition, none of our SaaS contracts with carriers obligates our carrier customers to market or distribute any of our SaaS offerings. Despite the lack of marketing commitments, revenue related to our SaaS offerings is, to a large extent, dependent upon the marketing and promotion activities of our carrier customers. In addition, many of our carrier contracts are short term and allow for early termination by the carrier with or without cause. These contracts are therefore subject to renegotiation of pricing or other key terms that could be adverse to our interests and leave us vulnerable to non-renewal by the carriers. The loss of carrier customers, a reduction in marketing or promotion of our SaaS offerings, or the termination, non-renewal or renegotiation of contract terms that are less favorable to us would likely result in the loss of future revenues from our SaaS offerings.

Finally, nearly all of our carrier contracts obligate us to indemnify the carrier customer for certain liabilities and losses incurred by them, including liabilities resulting from third party claims for damages that arise out of the use of our technology. These indemnification terms provide us with certain procedural safeguards, including the right to control the defense of the indemnified party. Pursuant to these indemnifications obligations, we have agreed to control the defense on behalf of three of our carrier customers related to pending patent infringement proceedings, and we are vigorously defending them. These pending proceedings or future claims against which we may be obligated to defend our carrier customers could result in payments that could materially harm our business or our consolidated financial statements.

A majority of the revenue that we generate in our Core Products business segment is dependent upon our relationship with a few customers, including SK Telecom and Verizon; any deterioration of these relationships could materially harm our business.

We generate a significant portion of our revenue from sales of our mobile entertainment services to a few of our mobile carrier customers, including SK Telecom, a leading wireless carrier in South Korea. In the near term, we expect that we will continue to generate a significant portion of our total revenue from these customers, particularly SK Telecom and Verizon. If these customers fail to market or distribute our services or terminate their business contracts with us, or if our relationships with these customers deteriorate in any significant way, we may be unable to replace the affected business arrangements with acceptable alternatives. Our relationship with SK Telecom may also be affected by the general state of the economy of South Korea. Failure to maintain our relationships with these customers could have a material negative impact on our revenue and operating results.

Our businesses face substantial competitive and other challenges that may prevent us from being successful in, and negatively impact future growth in, those businesses.

Many of our current and potential competitors in our businesses have longer operating histories, greater name recognition, more employees and significantly greater resources than we do. To effectively compete in the markets for our products and services, we may experience the following consequences, any of which would adversely affect our operating results and the trading price of our stock:

- reduced prices or margins,
- loss of current and potential customers, or partners and potential partners who provide content we distribute to our customers,
- changes to our products, services, technologies, licenses or business practices or strategies,
- lengthened sales cycles,
- industry-wide changes in content distribution to customers or in trends in consumer consumption of digital media products and services,
- pressure to prematurely release products or product enhancements, or
- degradation in our stature or reputation in the market.

In addition, we face the following competitive risks relating to our businesses:

Our SuperPass subscription service faces competition from a broad variety of entertainment sources, including traditional media outlets and emerging Internet media sources. We expect this competition to continue to be intense as the market and business models for Internet video content mature and more competitors enter these new markets. Competing services may be able to obtain better or more favorable access to compelling video content than us, may develop better offerings than us and may be able to leverage other assets or technologies to promote or distribute their offerings successfully. Our RealPlayer software services compete with alternative streaming media playback technologies and audio and video formats including Microsoft Windows Media Player and Adobe Flash and their related file formats, each of which has obtained very broad market penetration. In addition, our overall ability to sell subscription services depends in part on the use of our formats on the Internet, and declines in the use of our formats have negatively affected, and are expected to continue to negatively affect, our subscription revenue and increase costs of obtaining new subscribers. If we are unable to compete successfully, including through the introduction of compelling new products and services, our SuperPass and RealPlayer businesses could continue to decline.

Our GameHouse, Zylom and Atrativa branded services compete with other online aggregators and distributors of online, downloadable and social casual PC games. Some of these competitors have high volume distribution channels and greater financial resources than we do. Our Games business also competes with many other smaller companies that may be able to adjust to market conditions, including responding effectively to the growing popularity of casual games on social networks, faster than us. We also face increasing price competition in the casual games market, and some of our competitors may be able to lower prices more aggressively than us. We expect competition to intensify in this market from these and other competitors, and no assurance can be made that we will be able to achieve growth in our revenue. Our games development studios compete primarily with other developers of online, downloadable, mobile and social casual PC games and must continue to develop popular and high-quality game titles. Our Games business must also continue to execute on opportunities to expand the play of our games on a variety of non-PC platforms, including social networks, in order to maintain our competitive position and to grow the business.

We may not be successful in maintaining and growing our distribution of digital media products.

Maintaining and growing the distribution of digital media products through our websites and our other distribution channels is important to our future prospects, including future growth through the introduction of new products and services distributed through these channels. We cannot predict whether consumers will continue to download and use our digital media products consistent with past usage, which may reduce our ability to generate revenue from those products as well as result in lower than expected adoption of newly introduced products and services. Our inability to maintain continued high volume distribution of our digital media products could also hold back the growth and development of related revenue streams from these market segments, including the distribution of third-party products and sales of our subscription services, and therefore could harm our business and our prospects. Our revenue from the distribution of third-party products will also be negatively impacted if those products are not widely downloaded by consumers, including due to the relative market saturation of such products. In addition, our revenue from the distribution of third party products is currently significantly dependent on a single customer contract. If that contract is not renewed or terminated and cannot be replaced by another similar customer contract, our financial results would be harmed.

Our operating results are difficult to predict and may fluctuate, which may contribute to volatility in our stock price.

The trading price for our common stock has been volatile, ranging from $6.81 to $15.08 per share during the 52-week period ended March 31, 2012. As a result of the rapidly changing markets in which we compete, our operating results may fluctuate from period-to-period, which may continue to contribute to the volatility of our stock price. In past periods, our operating results have been affected by personnel reductions and related charges, charges relating to losses on excess office facilities, restructuring charges and impairment charges for certain of our equity investments, goodwill and other long-lived assets. Our operating results may be adversely affected by similar or other charges or events in future periods, including, but not limited to:

- impairments of long-lived assets,
- integrating and operating newly acquired businesses and assets, and
- the general difficulty in forecasting our operating results and metrics, which could result in actual results that differ significantly from expected results.

Certain of our product and service investment decisions (for example, research and development and sales and marketing efforts) are based on predictions regarding business and the markets in which we compete. Fluctuations in our operating results, particularly when experienced beyond what we expected, could cause the trading price of our stock to continue to fluctuate.

Continued loss of revenue from some of our subscription services may harm our operating results.

Our operating results could be adversely impacted by the loss of subscription revenue. Subscribers may cancel their subscriptions to our services for many reasons, including a perception that they do not use the services sufficiently or that the service does not provide enough value, a lack of attractive or exclusive content generally or as compared with competitive service offerings, or because customer service issues are not satisfactorily resolved. Revenue from our SuperPass subscription service has declined in recent periods due in part to our focus on other products and services we offer, and we expect this trend to continue. For the subscription services we offer, we must continue to obtain compelling digital media content for our video and games services in order to maintain and increase usage and overall customer satisfaction for these products. Our operating results may be negatively impacted if we cannot obtain content for our subscription services on commercially reasonable terms.

Government regulation of the Internet is evolving, and unfavorable developments could have an adverse affect on our operating results.

We are subject to regulations and laws specific to the marketing, sale and delivery of goods and services over the Internet. These laws and regulations cover taxation, user privacy, data collection and protection, copyrights, electronic contracts, sales procedures, automatic subscription renewals, credit card processing procedures, consumer protections, broadband Internet access and content restrictions. We cannot guarantee that we have been or will be fully compliant in every jurisdiction, as it is not entirely clear how existing laws and regulations governing issues such as privacy, taxation and consumer protection apply or will be enforced with respect to the products and services we sell through the Internet. Moreover, as Internet commerce continues to evolve, increasing regulation and/or enforcement efforts by federal, state and foreign agencies becomes more likely. The adoption of any laws or regulations or the imposition of other legal requirements that adversely affect our ability to market, sell, and deliver our products and services could decrease demand for our service offerings, resulting in lower revenue. Future regulations, or changes in laws and regulations or their existing interpretations or applications, could also require us to change our business practices, raise compliance costs or other costs of doing business and result in additional historical or future liabilities for us, resulting in adverse impacts on our business and our operating results.

As a consumer-facing business, we receive complaints from our customers regarding our consumer marketing efforts and our customer service practices. Some of these customers may also complain to government agencies, and from time to time, those agencies have made inquiries to us about these practices. In March and September 2011, the Consumer Protection Division of the Washington State Office of the Attorney General (Washington AG) issued civil investigative demands to us requesting information and documents relating to certain of our consumer marketing practices during the period from 2005 to 2011. We are cooperating and are in discussions with the Washington AG regarding the investigation, and have been responding to the Washington AG's requests. The Washington AG has not initiated any enforcement action against us. We believe our practices have been consistent with industry standards and have not violated any laws, but the final outcome of the investigation remains uncertain. In light of the status of the investigation, we accrued $2.4 million for potential amounts associated with the investigation in the quarter ended March 31, 2012, but the investigation could ultimately result in additional expenses, monetary damages, penalties or injunctive relief against us that could have a material adverse impact on our future consolidated financial statements.

Uncertainty and adverse conditions in the economy could have a material adverse impact on our business, financial condition and results of operations.

Weaknesses in the national and global economy has resulted in recent years in a decline in overall consumer and corporate spending, declines in consumer and corporate access to credit, fluctuations in foreign exchange rates, declines in the value of assets and increased liquidity risks, all of which could materially impact our business, financial condition and results of operations. We provide digital entertainment services to consumers directly and indirectly through our carrier customers. Consumers may consider the purchase of our products and services to be a discretionary expenditure. As a result, consumers considering whether to purchase our products or services may be influenced by macroeconomic factors that affect consumer spending such as unemployment, conditions in the residential real estate and mortgage markets and access to credit when making a determination whether to commence, continue, or stop subscribing to or otherwise purchasing our products and services. In addition, businesses may reduce their advertising spending during adverse macroeconomic conditions, which would negatively impact the revenue we generate through sales of advertising on our websites and other properties. We recorded impairments to our assets in 2008 and 2009 due in part to weakness in the global economy, and if there is a sustained period of significant weakness or uncertainty in the global economy, we may need to record additional impairments to our assets in future periods. If any of these risks are realized, we may experience a material adverse impact on our financial condition and results of operations.

Our restructuring efforts may not yield the anticipated benefits to our shareholders.

We have been restructuring the operating and overhead costs of, and taking other measures to simplify, our business and operations. We have never before pursued initiatives to this extent and there is no assurance that our efforts will be successful. Our business and operations may be harmed to the extent there is customer or employee uncertainty surrounding the future direction of our product and service offerings and strategy for our businesses. Our restructuring activities have included implementing cost-cutting initiatives, which could materially impact our ability to compete in future periods. If we have not effectively re-aligned the cost structure of our remaining businesses or otherwise do not execute effectively on our strategic plans, our stock price may be adversely affected, and we and our shareholders will not realize the anticipated financial, operational and other benefits from such initiatives.

The restructuring of Rhapsody may not yield the anticipated benefits to us or to Rhapsody.

On March 31, 2010, we completed the restructuring transactions of our digital audio music service joint venture, Rhapsody America LLC (Rhapsody). As a result of the restructuring, we no longer have operational control over Rhapsody and Rhapsody's operating performance is no longer consolidated with our condensed consolidated financial statements. We believe the restructuring will provide Rhapsody with the financial, intellectual property and other key assets, and the operational flexibility to compete more effectively in the digital music market. Rhapsody's inability to operate and compete effectively as an independent company could adversely impact its financial condition and results of operations, which in turn could materially impact our reported net income (loss) in future periods. In addition, Rhapsody has generated losses since its inception, and the new structure may not alter this trend. If Rhapsody continues to incur losses, or if it otherwise experiences a significant decline in its business, we may incur a loss on our investment, which could have a material adverse effect on our financial condition and results of operations.

Given the current proportion of the outstanding equity of Rhapsody that we hold, we anticipate that we will need to receive Rhapsody's unaudited quarterly financial statements in order to timely prepare our quarterly consolidated financial statements and also to report certain of Rhapsody's financial results, as may be required, in our quarterly reports on Form 10-Q. In addition, we may be required to include Rhapsody's annual audited financial statements in our annual report on Form 10-K in future periods. As we no longer exert operational control over Rhapsody, we cannot guarantee that Rhapsody will deliver its financial statements to us in a timely manner, or at all, or that the unaudited financial statement information provided by Rhapsody will not contain inaccuracies that are material to our reported results. Any failure to timely obtain Rhapsody's quarterly financial statements or to include its audited financial statements in our future annual reports on Form 10-K, if required, could cause our reports to be filed in an untimely manner, which would preclude us from utilizing certain registration statements and could negatively impact our stock price.

We depend upon our executive officers and key personnel, but may be unable to attract and retain them, which could significantly harm our business and results of operations.

Our success depends on the continued employment of certain executive officers and key employees. In January 2010, Rob Glaser, our founder and the only Chief Executive Officer in our history, resigned as Chief Executive Officer, but remained the Chairman of our Board of Directors. In March 2011, Robert Kimball resigned as Chief Executive Officer and Michael Lunsford was appointed as Interim Chief Executive Officer, and since November 2011, Thomas Nielsen has served as our President and Chief Executive Officer. Accordingly, we are experiencing our third transition at the Chief Executive Officer level in less than two years. We cannot provide assurance that we will effectively manage these transitions, which may impact our ability to retain our remaining key executive officers and which could harm our business and operations to the extent there is customer or employee uncertainty arising from these transitions.

Our success is also dependent upon our ability to identify, attract and retain highly skilled management, technical and sales personnel. Qualified individuals are in high demand and competition for such qualified personnel in our industry, particularly engineering talent, is intense, and we may incur significant costs to attract or retain them. Our ability to attract and retain personnel may also be made more difficult by the uncertainty created by the recent changes at our Chief Executive Officer position. There can be no assurance that we will be able to attract and retain the key personnel necessary to sustain our business or support future growth.

Acquisitions and divestitures involve costs and risks that could harm our business and impair our ability to realize potential benefits from these transactions.

As part of our business strategy, we have acquired and sold technologies and businesses in the past and expect that we will continue to do so in the future. The failure to adequately manage transaction costs and address the financial, legal and operational risks raised by acquisitions and divestitures of technology and businesses could harm our business and prevent us from realizing the benefits of these transactions.

Transaction-related costs and financial risks related to completed and potential future purchase or sale transactions may harm our financial position, reported operating results, or stock price. Previous acquisitions have resulted in significant expenses, including amortization of purchased technology, amortization of acquired identifiable intangible assets and the incurrence of charges for the impairment of goodwill and other intangible assets, which are reflected in our operating expenses. New acquisitions and any potential additional future impairment of the value of purchased assets, including goodwill, could have a significant negative impact on our future operating results.

Purchase and sale transactions also involve operational risks that could harm our existing operations or prevent realization of anticipated benefits from a transaction. These operational risks include:

- difficulties and expenses in assimilating the operations, products, technology, information systems, and/or personnel of the acquired company;
- retaining key management or employees of the acquired company;
- entrance into unfamiliar markets, industry segments, or types of businesses;
- operating, managing and integrating acquired businesses in remote locations or in countries in which we have little or no prior experience;
- diversion of management time and other resources from existing operations;
- impairment of relationships with employees, affiliates, advertisers or content providers of our business or acquired business; and
- assumption of known and unknown liabilities of the acquired company, including intellectual property claims.

We may be unable to adequately protect our proprietary rights or leverage our technology assets, and may face risks associated with third-party claims relating to our intellectual property.

Our ability to compete across our businesses partly depends on the superiority, uniqueness and value of our technology, including both internally developed technology and technology licensed from third parties. To protect our proprietary rights, we rely on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements with our employees and third parties, and protective contractual provisions. Our efforts to protect our intellectual property rights may not assure our ownership rights in our intellectual property, protect or enhance the competitive position of our products and services or effectively prevent misappropriation of our technology. We also routinely receive challenges to our trademarks and other proprietary intellectual property that we are using in our business activities in China. Disputes regarding the validity and scope of patents or the ownership of technologies and rights associated with streaming media, digital distribution, and online businesses are common and likely to arise in the future. We may be forced to litigate to enforce or defend our patents and other intellectual property rights or to determine the validity and scope of other parties' proprietary rights, enter into royalty or licensing agreements on unfavorable terms or redesign our product features and services. Any such dispute would likely be costly and distract our management, and the outcome of any such dispute could fail to improve our business prospects or otherwise harm our business.

From time to time we receive claims and inquiries from third parties alleging that our technology may infringe the third parties' proprietary rights, especially patents. Third parties have also asserted and most likely will continue to assert claims against us alleging contract breaches, infringement of copyrights, trademark rights, trade secret rights or other proprietary rights, or alleging unfair competition or violations of privacy rights. These claims, even if not meritorious, could force us to spend significant financial and managerial resources. Given the broad distribution of some of our consumer products, any individual claim related to those products could give rise to liabilities that may be material to us. Currently, we are investigating or litigating a variety of such pending claims, some of which are described in "Note 14. Commitments and Contingencies" to Condensed Consolidated Financial Statements included in Part I, Item 1 of this report. In the event of a determination adverse to us, we may incur substantial monetary liability and/or be required to change its business practices. In addition, we recently sold substantially all of our patent assets to Intel Corporation. We believe that our patent portfolio may have in the past discouraged third parties from bringing infringement or other claims against us relating to the use of our technologies in our business. Accordingly, we cannot predict whether the sale of these patent assets to Intel will result in additional infringement or other claims against us from third parties.

Our business and operating results will suffer if our systems or networks fail, become unavailable, unsecured or perform poorly so that current or potential users do not have adequate access to our products, services and websites.

Our ability to provide our products and services to our customers and operate our business depends on the continued operation and security of our information systems and networks. A significant or repeated reduction in the performance, reliability, security or availability of our information systems and network infrastructure could harm our ability to conduct our business, and harm our reputation and ability to attract and retain users, customers, advertisers and content providers. We have on occasion experienced system errors and failures that caused interruption in availability of products or content or an increase in response time. Problems with our systems and networks could result from our failure to adequately maintain and enhance these systems and networks, natural disasters and similar events, power failures, HVAC failures, intentional actions to disrupt our systems and networks and many other causes. The vulnerability of a large portion of our computer and communications infrastructure is enhanced because much of it is located at a single leased facility in Seattle, Washington, an area that is at heightened risk of earthquake, flood, and volcanic events. Many of our services do not currently have fully redundant systems or a formal disaster recovery plan, and we may not have adequate business interruption insurance to compensate us for losses that may occur from a system outage.

The growth of our business is dependent in part on successfully managing our international operations.

Our international operations involve risks inherent in doing business globally, including difficulties in managing operations due to distance, language, and cultural differences, local economic conditions, different or conflicting laws and regulations, taxes, and exchange rate fluctuations. The functional currency of our foreign subsidiaries is the local currency of the country in which each subsidiary operates. We translate our subsidiaries' revenues into U.S. dollars in our financial statements, and continued volatility in foreign exchange rates, particularly if the U.S. dollar strengthens against the euro or the Korean won, may result in lower reported revenue or net assets in future periods. Our foreign currency exchange risk management program reduces, but does not eliminate, the impact of currency exchange rate movements. If we do not effectively manage any of the risks inherent in running our international businesses, our operating results and financial condition could be harmed.

We may be subject to market risk and legal liability in connection with our data collection and data security capabilities.

Many of our products are interactive Internet applications that by their very nature require communication between a client and server to operate. For example, to provide better consumer experiences and to operate effectively, our products send information, including personally identifiable information, to our servers. In addition, we sell many of our products and services through online sales transactions directly with consumers, through which we collect and store credit card information. In connection with our direct sales to consumers, we may be the victim of fraudulent transactions, including credit card fraud, which presents a risk to our revenue and potentially disrupts service to our consumers. While we take measures to protect our consumer data, we have experienced unauthorized access to our consumer data in the past, and it is possible that our security controls over consumer data may not prevent future improper access or disclosure of credit card information or personally identifiable information. We have an extensive privacy policy concerning the collection, use and disclosure of user data involved in interactions between our client and server products. A security breach that leads to disclosure of consumer account information (including personally identifiable information) or any failure by us to comply with our posted privacy policy or existing or new legislation regarding privacy issues could harm our reputation, impact the market for our products and services, subject us to litigation, and require us to expend significant resources to mitigate the breach of security, comply with breach notification laws or address related matters. In addition, we also are not yet fully compliant with the Payment Card Industry (PCI) compliance standard for data security in connection with our use of credit card services for payment. If we fail to satisfy timely the PCI compliance standards we may be subject to substantial monetary penalties and we could lose the ability to accept credit card payments for transactions with our customers. Any of these consequences could materially harm our business or our consolidated financial statements.

Changes in regulations applicable to the Internet and e-commerce that increase the taxes on the services we provide could materially harm our business and operating results.

As Internet commerce continues to evolve, increasing taxation by state, local or foreign tax authorities becomes more likely. For example, taxation of electronically delivered products and services or other charges imposed by government agencies may also be imposed. We believe we collect transactional taxes and are compliant and current in all jurisdictions where we believe we have a collection obligation for transaction taxes. Any regulation imposing greater taxes or other fees for products and services could result in a decline in the sale of products and services and the viability of those products and services, harming our business and operating results. A successful assertion by one or more states or foreign tax authorities that we should collect and remit sales or other taxes on the sale of our products or services could result in substantial liability for past sales.

In those countries where we have taxable presence, we collect value added tax, or VAT, on sales of "electronically supplied services" provided to European Union residents. The collection and remittance of VAT subjects us to additional currency fluctuation risks.

We may be subject to additional income tax assessments.

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes, income taxes payable, and net deferred tax assets. In the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different than that which is reflected in our historical financial statements. An audit or litigation can result in significant additional income taxes payable in the U.S. or foreign jurisdictions which could have a material adverse effect on our financial condition and results of operations.

Our Chairman of the Board beneficially owns approximately 37% of our stock, which gives him significant control over certain major decisions on which our shareholders may vote or may discourage an acquisition of us.

Robert Glaser, our Chairman of the Board, beneficially owns approximately 37% of our common stock. As a result, Mr. Glaser and his affiliates will have significant influence to:

- elect or defeat the election of our directors;
- amend or prevent amendment of our articles of incorporation or bylaws;
- effect or prevent a merger, sale of assets or other corporate transaction; and
- control the outcome of any other matter submitted to the shareholders for vote.

At our 2010 annual meeting of shareholders, Mr. Glaser withheld votes of his shares of our common stock with respect to the election of four of our directors, including three of our incumbent directors and Robert Kimball, our former President and Chief Executive Officer. Although these four directors were re-elected, none of them received approval of a majority of the votes cast. The stock ownership of Mr. Glaser and his affiliates may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of RealNetworks, which in turn could reduce our stock price or prevent our shareholders from realizing a premium over our stock price.

Provisions of our charter documents, Shareholder Rights Plan, and Washington law could discourage our acquisition by a third-party.

Our articles of incorporation provide for a strategic transaction committee of the board of directors. Without the prior approval of this committee, and subject to certain limited exceptions, the board of directors does not have the authority to:

- adopt a plan of merger;
- authorize the sale, lease, exchange or mortgage of assets representing more than 50% of the book value of our assets prior to the transaction or on which our long-term business strategy is substantially dependent;
- authorize our voluntary dissolution; or
- take any action that has the effect of any of the above.

In addition, Mr. Glaser has special rights under our articles of incorporation to appoint or remove members of the strategic transaction committee at his discretion that could make it more difficult for RealNetworks to be sold or to complete another change of control transaction without Mr. Glaser's consent. RealNetworks has also entered into an agreement providing Mr. Glaser with certain contractual rights relating to the enforcement of our charter documents and Mr. Glaser's roles and authority within RealNetworks. These rights and his role as Chairman of the Board of Directors, together with Mr. Glaser's significant beneficial ownership, create unique potential for concentrated influence of Mr. Glaser over potentially material transactions involving RealNetworks and decisions regarding the future strategy and leadership of RealNetworks.

We have adopted a shareholder rights plan, which was amended and restated in December 2008, which provides that shares of our common stock have associated preferred stock purchase rights. The exercise of these rights would make the acquisition of RealNetworks by a third-party more expensive to that party and has the effect of discouraging third parties from acquiring RealNetworks without the approval of our board of directors, which has the power to redeem these rights and prevent their exercise.

Washington law imposes restrictions on some transactions between a corporation and certain significant shareholders. The foregoing provisions of our charter documents, shareholder rights plan, our agreement with Mr. Glaser, and Washington law, as well as our charter provisions that provide for a classified board of directors and the availability of "blank check" preferred stock, could have the effect of making it more difficult or more expensive for a third-party to acquire, or of discouraging a third-party from attempting to acquire, control of us. These provisions may therefore have the effect of limiting the price that investors might be willing to pay in the future for our common stock.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable

(b) Not applicable

(c) Not applicable

Item 3. Default Upon Senior Securities

None

Item 4. *Mine Safety Disclosures*

Not applicable.

Item 5. Other Information

None

Item 6. Exhibits

Exhibits Required by Item 601 of Regulation S-K

Exhibit Number	Description
2.1	Asset Purchase Agreement dated as of January 26, 2012, by and between RealNetworks, Inc. and Intel Corporation (incorporated by reference from Exhibit 2.1 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2012). Certain schedules and exhibits referenced in the Asset Purchase Agreement have been omitted in accordance with Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request.
10.1†	License Agreement, dated as of January 26, 2012, by and between RealNetworks, Inc. and Intel Corporation (incorporated by reference from Exhibit 10.1 to RealNetworks' Current Report on Form 8-K/A filed with the Securities and Exchange Commission on April 11, 2012)
31.1	Certification of Thomas Nielsen, President and Chief Executive Officer of RealNetworks, Inc., Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Tim M. Wan, Chief Financial Officer and Treasurer of RealNetworks, Inc., Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Thomas Nielsen, President and Chief Executive Officer of RealNetworks, Inc., Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Tim M. Wan, Chief Financial Officer and Treasurer of RealNetworks, Inc., Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	XBRL Instance Document

Table of Contents

Exhibit Number	Description
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document

† Portions of this exhibit are omitted and were filed separately with the Securities and Exchange Commission pursuant to the Company's application requesting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on May 8, 2012.

REALNETWORKS, INC.

By: /s/ Tim M. Wan

Tim M. Wan

Title: **Chief Financial Officer and Treasurer**
(Principal Financial and Accounting Officer)

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INDEX TO EXHIBITS

Exhibit Number	Description
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** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

Exhibit 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas Nielsen, certify that:

1. I have reviewed this report on Form 10-Q of RealNetworks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2012

/s/ Thomas Nielsen
Thomas Nielsen
Title: President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Tim M. Wan, certify that:

1. I have reviewed this report on Form 10-Q of RealNetworks, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2012

/s/ Tim M. Wan
Tim M. Wan
Title: Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

I, Thomas Nielsen, President and Chief Executive Officer of RealNetworks, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of RealNetworks, Inc. on Form 10-Q for the fiscal quarter ended March 31, 2012 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of RealNetworks, Inc.

Date: May 8, 2012

By: /s/ Thomas Nielsen
Name: Thomas Nielsen
Title: President and Chief Executive Officer,
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to RealNetworks, Inc. and will be retained by RealNetworks, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

I, Tim M. Wan, Chief Financial Officer and Treasurer of RealNetworks, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of RealNetworks, Inc. on Form 10-Q for the fiscal quarter ended March 31, 2012 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of RealNetworks, Inc.

Date: May 8, 2012

By: /s/ Tim M. Wan

Name: Tim M. Wan
Title: Chief Financial Officer and Treasurer,
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to RealNetworks, Inc. and will be retained by RealNetworks, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

MC 68

REALNETWORKS INC

FORM 10-K
(Annual Report)

Filed 03/01/12 for the Period Ending 12/31/11

Address	2601 ELLIOTT AVENUE STE 1000 SEATTLE, WA 98121
Telephone	2066742700
CIK	0001046327
Symbol	RNWK
SIC Code	7371 - Computer Programming Services
Industry	Business Services
Sector	Services
Fiscal Year	12/31

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended December 31, 2011

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 0-23137

RealNetworks, Inc.
(Exact name of registrant as specified in its charter)

Washington *(State of incorporation)*	**91-1628146** *(I.R.S. Employer Identification Number)*
2601 Elliott Avenue, Suite 1000 **Seattle, Washington** *(Address of principal executive offices)*	**98121** *(Zip Code)*

Registrant's telephone number, including area code:
(206) 674-2700

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, Par Value $0.001 per share	The NASDAQ Stock Market LLC
Preferred Share Purchase Rights	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes ☐ No ☑

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☑	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

The aggregate market value of the Common Stock held by non-affiliates of the registrant was $290,581,313 on June 30, 2011, based on the closing price of the Common Stock on that date, as reported on the Nasdaq Global Select Market.(1)

The number of shares of the registrant's Common Stock outstanding as of February 17, 2012 was 34,527,609.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant has incorporated by reference the information required by Part III of this Annual Report from its Proxy Statement relating to its 2012 Annual Meeting of Shareholders, to be filed within 120 days after the end of its fiscal year ended December 31, 2011.

(1) Excludes shares held of record on that date by directors, executive officers and 10% shareholders of the registrant. Exclusion of such shares should not be construed to indicate that any such person directly or indirectly possesses the power to direct or cause the direction of the management of the policies of the registrant.

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PART I.

This Annual Report on Form 10-K and the documents incorporated herein by reference contain forward-looking statements that have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current expectations, estimates, and projections about RealNetworks' industry, products, management's beliefs, and certain assumptions made by management. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," and similar expressions are intended to identify forward-looking statements. All statements contained in this annual report on Form 10-K that do not relate to matters of historical fact should be considered forward-looking statements. Forward-looking statements include statements with respect to:

- *future revenues, operating expenses, income and other taxes, tax benefits, net income (loss) per diluted share available to common shareholders, acquisition costs and related amortization, and other measures of results of operations;*
- *the effects of our past acquisitions and expectations for future acquisitions and divestitures;*
- *the effect on our businesses of the sale of certain patent assets and next generation codec assets to Intel Corporation, which is subject to customary regulatory approval and satisfaction of closing conditions;*
- *plans, strategies and expected opportunities for future growth, increased profitability and innovation;*
- *the prospects for creation and growth of strategic partnerships and the resulting financial benefits from such partnerships;*
- *the expected financial position, performance, growth and profitability of our businesses and the availability of resources;*
- *our involvement in potential claims, legal proceedings and government investigations, the expected course and costs of existing claims, legal proceedings and government investigations, and the potential outcomes and effects of both existing and potential claims, legal proceedings and governmental investigations on our business, prospects, financial condition or results of operations;*
- *our plans to repatriate some of the cash held by our foreign subsidiaries in a tax efficient manner;*
- *the expected benefits and other consequences from restructuring Rhapsody and from our other strategic initiatives;*
- *our expected introduction of new and enhanced products, services and technologies across our businesses;*
- *the effects of legislation, regulations, administrative proceedings, court rulings, settlement negotiations and other factors that may impact our businesses;*
- *the continuation and expected nature of certain customer relationships;*
- *impacts of competition and certain customer relationships on the future financial performance and growth of our businesses;*
- *the effects of U.S. and foreign income and other taxes on our business, prospects, financial condition or results of operations; and*
- *the effect of economic and market conditions on our business, prospects, financial condition or results of operations.*

These statements are not guarantees of future performance and actual actions or results may differ materially. These statements are subject to certain risks, uncertainties and assumptions that are difficult to predict, including those noted in the documents incorporated herein by reference. Particular attention should also be paid to the cautionary language included or referred to in the section of Item 1 entitled "Competition," in Item 1A entitled "Risk Factors" and in Item 3 entitled "Legal Proceedings." RealNetworks undertakes no obligation to update publicly any forward-looking statements as a result of new information, future events or otherwise, unless required by law. Readers should carefully review the risk factors included in other reports or documents filed by RealNetworks from time to time with the Securities and Exchange Commission, particularly the Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K.

Item 1. *Business*

Overview

RealNetworks creates innovative applications and services that make it easy to access and enjoy digital media. Our applications and services simplify the way people connect with, use and enjoy their media in a mobile, multi-screen world that embraces a variety of technology and devices. We provide the digital media services and applications we create to consumers, mobile carriers and other businesses.

Consumers use our services and software to find, purchase, store, organize, play and manage music, games and video. Our consumer products and services include RealPlayer, a widely distributed media player; casual games for play on the Internet and social media sites and for purchase on personal computers and mobile phones; and SuperPass, a subscription service that provides access to a wide variety of digital media. Network service providers, such as mobile carriers, use our products and services to create and deliver digital media and messaging services, such as ringback tones, music-on-demand, video-on-demand and intercarrier messaging, for their subscribers.

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On January 26, 2012, we entered into an asset purchase agreement with Intel Corporation pursuant to which we will sell substantially all of our patent assets and related rights held by us and our next generation video codec technology for cash consideration of $120.0 million and the assumption of certain of our liabilities, subject to the potential adjustments provided for in the asset purchase agreement. In connection with the transaction, we also entered into a license agreement with Intel pursuant to which we will obtain a non-exclusive, royalty-free, fully paid up, irrevocable (except as set forth in the license agreement) and worldwide license (without the right to grant sublicenses) to use these patents in connection with our business. The consummation of these transactions is subject to closing conditions and is expected to close in the first quarter of 2012.

We were incorporated in 1994 in the State of Washington. Our common stock is listed on the Nasdaq Global Select Market under the symbol "RNWK."

Segments

Core Products

Core Products, our largest segment by revenue, consists of the digital media services we provide to network service providers as software as a service (SaaS) offerings, sales of our Helix software used by enterprises to stream digital media, sales of Helix technology licenses for mobile handsets that allow playback of digital media, software integration and professional services provided to mobile carriers around the world as well as our SuperPass subscription service offering.

SaaS. We develop and provide a variety of SaaS services including ring-back tone (RBT), music-on-demand (MOD), video-on-demand (VOD) and messaging services principally sold to mobile carriers. Our Saas services generated the most revenue within our Core Products segment in 2011. In connection with our SaaS services, we also offer e-commerce services, including business intelligence, subscriber management and billing for our carrier customers. Our carrier customer base includes more than 90 mobile carriers worldwide in 2011.

Our RBT services enable callers to hear music instead of the traditional electronic ringing sound while waiting for the person they have called to answer. The RBT subscriber chooses the music heard by the subscriber's callers. Our RBT services enable subscribers to select from a variety of ringback content, including music, pre-recorded messages by celebrities and sound effects. Carriers generally offer our RBT service to their subscribers through monthly subscriptions or on a per-tone basis. In return for providing, operating and managing the RBT service for carrier customers, we generally enter into revenue-sharing arrangements based on monthly subscription fees, content download fees or a combination of such fees paid by subscribers.

Our MOD services allow carriers to offer their subscribers a wide range of songs for downloading or streaming to PCs, mobile phones and portable audio players. Users typically pay carriers for MOD service through monthly subscriptions or on a per-download basis, and we generally receive from the carriers a combination of a monthly fixed fee, a percentage of monthly subscription fees and a percentage of content download fees for providing the service.

Our VOD services allow carriers to offer their subscribers a wide range of videos by downloading or streaming to video-enabled mobile phones that are equipped with approved digital rights management systems. Users typically pay for VOD services through monthly subscriptions and content download fees paid to the carriers, and we generally receive a combination of a monthly fixed fee, a percentage of monthly subscription fees and a percentage of content download fees for providing the service.

Our inter-carrier messaging (ICM) service routes and delivers short messaging service (SMS) messages between wireless carriers within the U.S. and internationally under the brand name Metcalf. We provide this service to carriers in partnership with Syniverse Holdings, Inc. The ICM service allows subscribers with any text-message capable handset to send and receive text messages to and from subscribers on other carrier networks. We typically earned revenue from this service from fees paid by the carriers based on the number of messages handled for them through the ICM service, but many contracts with carriers have changed to fixed-fee pricing for our service. The revenue we earn from our ICM service is subject to our revenue-sharing arrangement with Syniverse.

Software licensing. Our Helix server software allows companies and institutions to broadcast live and on-demand audio, video and other multimedia programming to large numbers of simultaneous users over the Internet. Carriers, media companies and other enterprises typically pay upfront fees for either a perpetual or term-based license plus annual fees for upgrades and support.

In addition, we have created enhanced versions of our media player and Helix server products for wireless applications and other devices, and we license them to a variety of mobile network operators and handset manufacturers on a worldwide basis. We have entered into agreements with companies including Motorola, Nokia, Qualcomm, and Sony Ericsson, to preinstall our mobile media player software on mobile phones.

Professional services and systems integration. We provide professional services and specialized technical support to customize and integrate our technology with our customers' existing systems and technology. In recent years we have reduced our focus on our systems integration business because it has lower margins and does not generate recurring revenue. However, revenue from this business has been a significant contributor to Core Products revenue in the fourth quarter of each year for the past five years. In 2011, however, we generated much of our professional services and systems integration revenue in the third quarter.

SuperPas s. SuperPass is a subscription service that provides consumers with access to a broad range of digital entertainment content for a monthly fee. In addition, our SuperPass subscription service includes exclusive live video feeds from the CBS television network's *Big Brother* program and a monthly allowance for games and music downloads.

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Emerging Products

Our emerging products business consists of RealPlayer and new products and services in development. In 2011, nearly all revenue in the segment was derived from products and services related to the RealPlayer.

RealPlayer. Our RealPlayer media player software includes features and services that enable consumers to discover, play, download, manage and edit digital video. Consumers can also use RealPlayer to stream audio and video, save CDs to their personal digital music libraries, burn CDs and transfer their audio and video content to portable devices. With the latest versions of our RealPlayer software, consumers can download and save their photos and web videos from thousands of websites, and transfer their photos and video content to and from portable devices. Consumers can also easily share photos and video links with their contacts on social networks and edit their own video content. RealPlayer is available to consumers as a free download from our Real.com and RealPlayer.com websites. A premium version of RealPlayer, which is available for purchase, includes enhanced functionality for creating CDs and DVDs, enhanced playback controls and additional media library features. We monetize RealPlayer primarily with revenue derived from sales of the premium version, and from distributing third-party software products, such as the Google toolbar and Google Chrome, to consumers who wish to download additional applications when downloading our software products.

In recent years, our RealPlayer strategy has focused on providing consumers with tools to manage their digital media content in a variety of formats across devices rather than creating a unique streaming platform and depending upon the adoption and use of the RealPlayer file format. As a result, RealPlayer's video downloading tools, for example, work on nearly any platform and play nearly all major digital media formats.

Games

We own and operate a large casual games service, offering casual games via digital downloads, online subscription play, third-party portals, social networks and mobile devices. Casual games typically have simple graphics, rules and controls and are quick-to-learn. Casual games include board, card, puzzle, word and hidden-object games.

We develop, publish, license and distribute casual games. We have a large and diverse portfolio of original games developed by our in-house game studios, games developed by us from content we license from other intellectual property holders, and games licensed to us by third parties that we distribute to our customers. We also partner with external game developers who develop games for us on an outsourced basis, which gives those developers access to our large distribution network in exchange for distribution rights to their games. We distribute games principally in North America, Europe and Latin America through our GameHouse, Zylom and Atrativa websites and through websites owned or managed by third parties.

PC Games. Consumers can play and purchase games from our catalog of online and downloadable PC games. We typically introduce new games by offering a free trial before purchase on an individual basis or as part of one of our subscription services. In addition to revenue from sales of games and subscriptions, we generate revenue from display advertising that is shown to consumers during online play.

Social and Mobile Games. Game play on social networks is among the fastest growing trends in game play, and during 2011, we focused on developing, monetizing and optimizing social games and social game play experiences. In 2010, we developed and launched Fusion, a gaming platform that introduces social elements to game play to increase interactions and competition among players, such as leaderboards, cross-device play, and microtransactions. We offer several of our casual games, including our own brands such as Collapse and licensed brands such as UNO on Facebook and other social network platforms. We monetize social games largely through sales of advertising and microtransactions. We have also adapted our games for play on more than 2,000 mobile handsets and launched several games for play on smartphones, including the iPhone.

Music

Following the restructuring of our Rhapsody joint venture in March 2010, we own approximately 47% of Rhapsody and no longer control or operate our former Music business. Rhapsody continues to provide products and services that enable consumers to have unlimited access to digital music content anytime from a variety of devices. The Rhapsody subscription service offers conditional downloads and on-demand streaming services through unlimited access to a catalog of millions of music tracks. Rhapsody also operates an MP3 music store, where consumers can purchase and permanently download individual digital music tracks. Rhapsody generates revenue primarily in the U.S. through subscriptions to its music services, and sales of tracks and advertising.

Research and Development

We devote a substantial portion of our resources to developing new products, enhancing existing products, expanding and improving our fundamental technology, and strengthening our technological expertise in all our businesses. During the years ended December 31, 2011, 2010 and 2009, we expended 21%, 25% and 21%, respectively, of our revenue on research and development activities.

Customers and Seasonality

Our customers include consumers and businesses located throughout the world. Sales to customers outside the U.S., primarily in Asia and Europe, were 52%, 43% and 33% of our revenue during the years ended December 31, 2011, 2010 and 2009, respectively. No one customer accounted for more than 10% of our total revenue during the years ended December 31, 2011, 2010, and 2009.

We experience seasonality in our business, particularly with respect to the fourth quarter of our fiscal year. Our consumer businesses, which include advertising revenue, make up a large percentage of our revenue, and the fourth quarter has traditionally been the seasonally strongest quarter for Internet advertising. In addition, our Core Products business typically has a concentration of system sales, deployment, and professional services revenue in the fourth quarter. In 2011, however, we generated much of our professional services and systems integration revenue in the third quarter.

Sales, Marketing and Distribution

Our marketing programs are aimed at increasing brand awareness of our products and services and stimulating demand. We use a variety of methods to market our products and services, including paid search advertising, affiliate marketing programs, advertising in print, electronic and other online media, direct mail and email offers to qualified potential and existing customers, and providing product specific information through our websites. We also cross-market products and services offered by some of our businesses through the RealPlayer and Games marketing and distribution channels. We also have subsidiaries and offices in several countries that market and sell our products outside the U.S.

Our products and services are marketed through direct and indirect channels. We use public relations, trade shows, events and speaking opportunities to market our products and services. We also use a variety of online channels, including social media, to promote and sell our products and services directly.

Core Products. Our Core Products sales, marketing and business development team works closely with many of our enterprise, infrastructure, wireless, broadband and media customers to identify new business opportunities for our entertainment applications, services and systems. Through ongoing communications with the product and marketing divisions of our customers, we tailor our SaaS offerings to their strategic needs and the needs of their subscribers. A large network of distributors including hardware server companies, content aggregators, Internet service providers and other resellers, provide end users access to our Helix streaming technology.

Emerging Products . We market and sell our RealPlayer services directly through our own websites such as Real.com and GameHouse.com, as well as indirectly through affiliate partnerships. During 2011, we also had a global sales force that generated advertising revenue from our websites and free consumer applications such as RealPlayer. We outsourced this advertising sales function beginning in 2012.

Games . Our games are marketed directly from our websites and through third-party distribution channels, such as broadband service providers, search engines, online portals, mobile phone application stores, major social networks and content publishers.

Intellectual Property

As of December 31, 2011, we had 132 U.S. patents, 58 South Korean patents, 63 patents in other countries and more than 190 pending patent applications worldwide relating to various aspects of our technology. On January 26, 2012, we entered into an asset purchase agreement with Intel Corporation pursuant to which we agreed to sell substantially all of our patent assets and related rights held by us and our next generation video codec technology to Intel. Giving effect to this sale transaction, we will have two U.S. patents, 40 South Korean patents, ten patents in other countries and more than 20 pending patent applications worldwide. Upon the closing of the asset sale transaction, we will obtain a non-exclusive, royalty-free, fully paid up, irrevocable and worldwide license to use the patent assets sold to Intel in connection with our business. The consummation of the transactions contemplated by the asset purchase agreement is subject to customary regulatory approval and closing conditions. We plan to continue to prepare additional patent applications on other current and anticipated features of our technology in various jurisdictions across the world.

As of December 31, 2011, we had 60 registered U.S. trademarks or service marks, 28 registered South Korea trademarks or service marks, and had applications pending for several more trademark or service marks in various jurisdictions across the world. We also have several unregistered trademarks. Many of our marks begin with the word "Real" (such as RealPlayer). We are aware of other companies that use "Real" in their marks alone or in combination with other words, and we do not expect to be able to prevent all third-party uses of the word "Real" for all goods and services.

Our ability to compete across our businesses partly depends on the superiority, uniqueness and value of our technology that we both develop and license from third parties. To protect our proprietary rights, we rely on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements with our employees and third parties, and protective contractual provisions. These efforts to protect our intellectual property rights may not be effective in preventing misappropriation of our technology, or may not prevent the development and design by others of products or technologies similar to or competitive with those we develop.

Employees

At December 31, 2011, we had 1,224 employees, of which 708 were based in the Americas, 331 were based in Asia, and 185 were based in Europe. None of our employees are subject to a collective bargaining agreement, and we believe that our relations with our employees are good.

Position on Charitable Responsibility

In periods where we achieve profitability, we intend to donate 5% of our net income to charitable organizations, which will reduce our net income for those periods. The non-profit RealNetworks Foundation manages a substantial portion of our charitable giving efforts. We attempt to encourage employee giving by using a portion of our intended contribution to match charitable donations made by employees.

Available Information

Our corporate Internet address is www.realnetworks.com. We make available free of charge on www.investor.realnetworks.com our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. However, the information found on our corporate website is not part of this or any other report.

Executive Officers of the Registrant

The table below lists the executive officers of RealNetworks as of February 1, 2012. On January 5, 2012, Michael Eggers announced that he will resign from his positions effective April 15, 2012.

Name	Age	Position
Thomas Nielsen	42	President, Chief Executive Officer and Director
Michael Eggers	40	Senior Vice President, Finance, Chief Financial Officer and Treasurer
Tracy D. Daw	46	Chief Legal Officer and Corporate Secretary
Matt Hulett	41	Senior Vice President, Games Division
Michael Lunsford	44	Executive Vice President

THOMAS NIELSEN has served as President and Chief Executive Officer of RealNetworks since November 2011. From 2004 to October 2011, Mr. Nielsen was employed by Adobe Systems, Incorporated, a software company, serving as Vice President of the Digital Imaging Group from November 2009 to October 2011, as Senior Director for Consumer and Online applications from 2007 to November 2009 and as Director of Engineering for the InDesign and Illustrator applications from 2004 to 2006. Mr. Nielsen's professional experience also includes 14 years of employment with technology companies including Microsoft Corporation and MGI Software Corp. Mr. Nielsen holds a B.S. in Computer Science from Tietgen Business School in Odense, Denmark.

MICHAEL EGGERS has served as Senior Vice President, Chief Financial Officer and Treasurer of RealNetworks since 2006. Mr. Eggers joined RealNetworks in 1997 as the Manager of Financial Reporting and has held various positions leading to his appointment as Senior Vice President, Chief Financial Officer and Treasurer. Prior to RealNetworks, Mr. Eggers was employed by KPMG LLP in the audit practice division. Mr. Eggers holds a B.A., magna cum laude, in Business Administration with a concentration in accounting from the University of Washington.

TRACY D. DAW has served as Chief Legal Officer of RealNetworks since September 2010 and as Corporate Secretary since January 2010. Mr. Daw joined RealNetworks in 2000 and has held various positions with the Company, including Vice President, Corporate Development and Deputy General Counsel from 2007 to September 2010 and Vice President, Corporate Development and Associate General Counsel from 2006 to 2007. Prior to joining RealNetworks, Mr. Daw was a partner in the law firm of Sidley & Austin in Chicago, Illinois. Mr. Daw holds a B.S. from Cornell University and a J.D. from the University of Michigan Law School.

MATT HULETT has served as the Senior Vice President of the Games Division of RealNetworks since July 2010 and served as Chief Revenue Officer of the Games Division from August 2009 to July 2010. From 2006 to August 2009, Mr. Hulett was the Chairman and Chief Executive Officer of Mpire Corporation, a company engaged in online advertising optimization, and continues to serve as its Executive Chairman. From 2001 to 2005, Mr. Hulett was the President of the corporate travel division of Expedia, Inc., an online travel company. From 1999 to 2001, Mr. Hulett was President of Atom Entertainment, Inc., an online entertainment company. Mr. Hulett holds a B.A. degree in Marketing, Information Systems from the University of Washington.

MICHAEL LUNSFORD has served as Executive Vice President of RealNetworks since November 2011. Mr. Lunsford joined RealNetworks in 2008 and served as Interim Chief Executive Officer from March 2011 to November 2011, as Executive Vice President, Music, Media and Technology Solutions of RealNetworks from June 2010 to March 2011, as Executive Vice President, Technology Products and Solutions and Media Software and Services from January 2010 to June 2010, as Executive Vice President, Strategic Ventures from June 2008 to January 2010 and as Senior Strategic Advisor from January 2008 to June 2008. From 1999 to December 2007, Mr. Lunsford was employed by Earthlink, Incorporated, a provider of communications services, serving as Executive Vice President from June 2007 to December 2007, as interim President and Chief Executive Officer from 2006 to June 2007, as Executive Vice President and President, Access and Voice from 2005 to 2006, and as Executive Vice President, Marketing and Products from 2004 to 2005. Mr. Lunsford holds an A.B. in Economics and an M.B.A. from the University of North Carolina.

Item 1A. *Risk Factors*

You should carefully consider the risks described below together with all of the other information included in this annual report on Form 10-K. The risks and uncertainties described below are not the only ones facing our company. If any of the following risks actually occurs, our business, financial condition or operating results could be harmed. In such case, the trading price of our common stock could decline, and investors in our common stock could lose all or part of their investment.

We need to successfully introduce new products and services to grow our businesses.

Our business is dependent upon the introduction of new products and services, which is subject to a number of risks. The process of developing new, and enhancing existing, products and services is complex, costly and uncertain. Providing products and services that are attractive and useful to subscribers and consumers is in part subject to unpredictable and volatile factors beyond our control, including end-user preferences and competing products and services. Any failure by us to timely respond to or accurately anticipate consumers' changing needs, emerging technological trends or important changes in the market or competition for products and services we plan to introduce could significantly harm our current market share or result in the loss of market opportunities. In addition, we must make long-term investments, develop or obtain appropriate intellectual property and commit significant resources before knowing whether our predictions will accurately reflect consumer demand for our products and services, which may result in no return or a loss on our investments. Furthermore, new products and services may be subject to legal challenge. Responding to these potential claims may require us to enter into royalty and licensing agreements on unfavorable terms, require us to stop distributing or selling, or to redesign our products or services, or to pay damages. If we do not successfully introduce new products and services, our operating results may be materially harmed.

The mobile entertainment market is evolving rapidly and highly competitive.

The market for mobile entertainment services, including our ring back tones, music on demand and video on demand solutions, is highly competitive and evolving rapidly, particularly with the growth in the use of smartphones. Increased use of smartphones has resulted in a proliferation of applications and services that compete with our SaaS services and, in many cases, are not dependent upon our carrier customers to make them available to subscribers. To maintain or enhance our competitive position, we may need to develop new SaaS services that enable our carrier customers to compete with the broad range of applications and other services available in the market. We face competition, and may face future competition, from major media companies, Internet portal companies, content aggregators, wireless software providers and other pure-play wireless entertainment publishers, some of which have greater financial resources than we do. Furthermore, while most of our carrier customers do not offer internally developed services that compete with ours, if our carrier customers begin developing these services internally, we could be forced to lower our prices or increase the amount of service we provide in order to maintain our business with those carrier customers. Increased competition has in the past resulted in pricing pressure, forcing us to lower the selling price of our services. If we are unable to develop or provide services that compete effectively in the mobile entertainment market, our operating results and financial condition may be materially harmed.

Contracts with our carrier customers subject us to significant risks that could negatively impact our revenue or otherwise harm our operating results.

We derive a material portion of our revenue from our SaaS offerings we provide to carriers. Many of our SaaS contracts with carriers provide for revenue sharing arrangements, but we have little control over the pricing decisions of our carrier customers. Furthermore, most of these contracts do not provide for guaranteed minimum payments or usage levels. Because most of our carrier customer contracts are nonexclusive, it is possible that our mobile carrier customers could purchase similar services from third parties and cease to use our services in the future. As a result, our revenue derived under these agreements could be substantially reduced depending on the pricing and usage decisions of our carrier customers. In addition, some of our SaaS contracts require us to incur significant set-up costs prior to the launch of services with a carrier customer. In the fourth quarter of 2011, we reduced our forecast for profitability associated with certain carrier customer contracts for which the total costs exceeded the total revenue we expect to recognize from these contracts, and as a result, we recorded impairment of deferred costs totaling $20.0 million. We cannot provide assurance that we will not record additional impairments or other charges in future periods related to our carrier customer contracts, which would negatively impact our results of operations.

In addition, none of our SaaS contracts with carriers obligates our carrier customers to market or distribute any of our SaaS offerings. Despite the lack of marketing commitments, revenue related to our SaaS offerings is, to a large extent, dependent upon the marketing and promotion activities of our carrier customers. In addition, many of our carrier contracts are short term and allow for early termination by the carrier with or without cause. These contracts are therefore subject to renegotiation of pricing or other key terms that could be adverse to our interests and leave us vulnerable to non-renewal by the carriers. The loss of carrier customers, a reduction in marketing or promotion of our SaaS offerings, or the termination, non-renewal or renegotiation of contract terms that are less favorable to us would likely result in the loss of future revenues from our SaaS offerings.

Finally, nearly all of our carrier contracts obligate us to indemnify the carrier customer for certain liabilities and losses incurred by them, including liabilities resulting from third party claims for damages that arise out of the use of our technology. These indemnification terms provide us with certain procedural safeguards, including the right to control the defense of the indemnified party. Pursuant to these indemnifications obligations, we have agreed to control the defense on behalf of three of our carrier customers related to pending patent infringement proceedings, and we are vigorously defending them. These pending proceedings or future claims against which we may be obligated to defend our carrier customers could result in payments that could materially harm our business or our consolidated financial statements.

A majority of the revenue that we generate in our Core Products business segment is dependent upon our relationship with a few customers, including SK Telecom and Verizon; any deterioration of these relationships could materially harm our business.

We generate a significant portion of our revenue from sales of our mobile entertainment services to a few of our mobile carrier customers, including SK Telecom, a leading wireless carrier in South Korea. In the near term, we expect that we will continue to generate a significant portion of our total revenue from these customers, particularly SK Telecom and Verizon. If these customers fail to market or distribute our services or terminate their business contracts with us, or if our relationships with these customers deteriorate in any significant way, we may be unable to replace the affected business arrangements with acceptable alternatives. Our relationship with SK Telecom may also be affected by the general state of the economy of South Korea. Failure to maintain our relationships with these customers could have a material negative impact on our revenue and operating results.

Our businesses face substantial competitive and other challenges that may prevent us from being successful in, and negatively impact future growth in, those businesses.

Many of our current and potential competitors in our businesses have longer operating histories, greater name recognition, more employees and significantly greater resources than we do. To effectively compete in the markets for our products and services, we may experience the following consequences, any of which would adversely affect our operating results and the trading price of our stock:

- reduced prices or margins,
- loss of current and potential customers, or partners and potential partners who provide content we distribute to our customers,
- changes to our products, services, technologies, licenses or business practices or strategies,
- lengthened sales cycles,

- industry-wide changes in content distribution to customers or in trends in consumer consumption of digital media products and services,
- pressure to prematurely release products or product enhancements, or
- degradation in our stature or reputation in the market.

In addition, we face the following competitive risks relating to our businesses:

Our SuperPass subscription service faces competition from a broad variety of entertainment sources, including traditional media outlets and emerging Internet media sources. We expect this competition to continue to be intense as the market and business models for Internet video content mature and more competitors enter these new markets. Competing services may be able to obtain better or more favorable access to compelling video content than us, may develop better offerings than us and may be able to leverage other assets or technologies to promote or distribute their offerings successfully. Our RealPlayer software services compete with alternative streaming media playback technologies and audio and video formats including Microsoft Windows Media Player and Adobe Flash and their related file formats, each of which has obtained very broad market penetration. In addition, our overall ability to sell subscription services depends in part on the use of our formats on the Internet, and declines in the use of our formats have negatively affected, and are expected to continue to negatively affect, our subscription revenue and increase costs of obtaining new subscribers. If we are unable to compete successfully, including through the introduction of compelling new products and services, our SuperPass and RealPlayer businesses could continue to decline.

Our GameHouse, Zylom and Atrativa branded services compete with other online aggregators and distributors of online, downloadable and social casual PC games. Some of these competitors have high volume distribution channels and greater financial resources than we do. Our Games business also competes with many other smaller companies that may be able to adjust to market conditions, including responding effectively to the growing popularity of casual games on social networks, faster than us. We also face increasing price competition in the casual games market, and some of our competitors may be able to lower prices more aggressively than us. We expect competition to intensify in this market from these and other competitors, and no assurance can be made that we will be able to achieve growth in our revenue. Our games development studios compete primarily with other developers of online, downloadable, mobile and social casual PC games and must continue to develop popular and high-quality game titles. Our Games business must also continue to execute on opportunities to expand the play of our games on a variety of non-PC platforms, including social networks, in order to maintain our competitive position and to grow the business.

We may not be successful in maintaining and growing our distribution of digital media products.

Maintaining and growing the distribution of digital media products through our websites and our other distribution channels is important to our future prospects, including future growth through the introduction of new products and services distributed through these channels. We cannot predict whether consumers will continue to download and use our digital media products consistent with past usage, which may reduce our ability to generate revenue from those products as well as result in lower than expected adoption of newly introduced products and services. Our inability to maintain continued high volume distribution of our digital media products could also hold back the growth and development of related revenue streams from these market segments, including the distribution of third-party products and sales of our subscription services, and therefore could harm our business and our prospects. Our revenue from the distribution of third-party products will also be negatively impacted if those products are not widely downloaded by consumers, including due to the relative market saturation of such products. In addition, our revenue from the distribution of third party products is currently significantly dependent on a single customer contract. If that contract is not renewed or terminated and cannot be replaced by another similar customer contract, our financial results would be harmed.

Our operating results are difficult to predict and may fluctuate, which may contribute to volatility in our stock price.

The trading price for our common stock has been volatile, ranging from $6.92 to $17.24 per share during the 52-week period ended December 31, 2011. These prices reflect the one-for-four reverse stock split of the Company's common stock that was effective at the close of business on August 30, 2011. As a result of the rapidly changing markets in which we compete, our operating results may fluctuate from period-to-period, which may continue to contribute to the volatility of our stock price. In past periods, our operating results have been affected by personnel reductions and related charges, charges relating to losses on excess office facilities, and impairment charges for certain of our equity investments, goodwill and other long-lived assets. Our operating results may be adversely affected by similar or other charges or events in future periods, including, but not limited to:

- impairments of long-lived assets,
- integrating and operating newly acquired businesses and assets, and
- the general difficulty in forecasting our operating results and metrics, which could result in actual results that differ significantly from expected results.

Certain of our product and service investment decisions (for example, research and development and sales and marketing efforts) are based on predictions regarding business and the markets in which we compete. Fluctuations in our operating results, particularly when experienced beyond what we expected, could cause the trading price of our stock to continue to fluctuate.

Continued loss of revenue from some of our subscription services may harm our operating results.

Our operating results could be adversely impacted by the loss of subscription revenue. Subscribers may cancel their subscriptions to our services for many reasons, including a perception that they do not use the services sufficiently or that the service does not provide enough value, a lack of attractive or exclusive content generally or as compared with competitive service offerings, or because customer service issues are not satisfactorily resolved. Revenue from our SuperPass subscription service has declined in recent periods due in part to our focus on other products and services we offer, and we expect this trend to continue. For the subscription services we offer, we must continue to obtain compelling digital media content for our video and games services in order to maintain and increase usage and overall customer satisfaction for these products. Our operating results may be negatively impacted if we cannot obtain content for our subscription services on commercially reasonable terms.

Government regulation of the Internet is evolving, and unfavorable developments could have an adverse affect on our operating results.

We are subject to regulations and laws specific to the marketing, sale and delivery of goods and services over the Internet. These laws and regulations cover taxation, user privacy, data collection and protection, copyrights, electronic contracts, sales procedures, automatic subscription renewals, credit card processing procedures, consumer protections, broadband Internet access and content restrictions. We cannot guarantee that we have been or will be fully compliant in every jurisdiction, as it is not entirely clear how existing laws and regulations governing issues such as privacy, taxation and consumer protection apply or will be enforced with respect to the products and services we sell through the Internet. Moreover, as Internet commerce continues to evolve, increasing regulation and/or enforcement efforts by federal, state and foreign agencies becomes more likely. The adoption of any laws or regulations or the imposition of other legal requirements that adversely affect our ability to market, sell, and deliver our products and services could decrease demand for our service offerings, resulting in lower revenue. Future regulations, or changes in laws and regulations or their existing interpretations or applications, could also require us to change our business practices, raise compliance costs or other costs of doing business and result in additional historical or future liabilities for us, resulting in adverse impacts on our business and our operating results.

As a consumer-facing business, we receive complaints from our customers regarding our consumer marketing efforts and our customer service practices. Some of these customers may also complain to government agencies, and from time to time, those agencies have made inquiries to us about these practices. In March and September 2011, the Consumer Protection Division of the Washington State Office of the Attorney General (Washington AG) issued civil investigative demands to us requesting information and documents relating to certain of our consumer marketing practices during the period from 2005 to 2011. We are cooperating and are in discussions with the Washington AG regarding the investigation, and have begun to respond to the Washington AG's requests. The Washington AG has not initiated any enforcement action against us. We believe our practices have been consistent with industry standards and have not violated any laws, but cannot predict the outcome of the investigation at this time, including whether the investigation will result in significant expenses, monetary damages, penalties or injunctive relief that would reduce our cash flows or harm our business or consolidated financial statements.

Uncertainty and adverse conditions in the economy could have a material adverse impact on our business, financial condition and results of operations.

Weaknesses in the national and global economy has resulted in recent years in a decline in overall consumer and corporate spending, declines in consumer and corporate access to credit, fluctuations in foreign exchange rates, declines in the value of assets and increased liquidity risks, all of which could materially impact our business, financial condition and results of operations. We provide digital entertainment services to consumers directly and indirectly through our carrier customers. Consumers may consider the purchase of our products and services to be a discretionary expenditure. As a result, consumers considering whether to purchase our products or services may be influenced by macroeconomic factors that affect consumer spending such as unemployment, conditions in the residential real estate and mortgage markets and access to credit when making a determination whether to commence, continue, or stop subscribing to or otherwise purchasing our products and services. In addition, businesses may reduce their advertising spending during adverse macroeconomic conditions, which would negatively impact the revenue we generate through sales of advertising on our websites and other properties. We have recorded impairments to our assets in 2008 and 2009 due in part to weakness in the global economy, and if there is a sustained period of significant weakness or uncertainty in the global economy, we may need to record additional impairments to our assets in future periods. If any of these risks are realized, we may experience a material adverse impact on our financial condition and results of operations.

Our restructuring efforts may not yield the anticipated benefits to our shareholders.

We have been restructuring the operating and overhead costs of, and taking other measures to simplify, our business and operations. We have never before pursued initiatives to this extent and there is no assurance that our efforts will be successful. Our business and operations may be harmed to the extent there is customer or employee uncertainty surrounding the future direction of our product and service offerings and strategy for our businesses. Our restructuring activities have included implementing cost-cutting initiatives, which could materially impact our ability to compete in future periods. If we have not effectively re-aligned the cost structure of our remaining businesses or otherwise do not execute effectively on our strategic plans, our stock price may be adversely affected, and we and our shareholders will not realize the anticipated financial, operational and other benefits from such initiatives.

The restructuring of Rhapsody may not yield the anticipated benefits to us or to Rhapsody.

On March 31, 2010, we completed the restructuring transactions of our digital audio music service joint venture, Rhapsody America LLC (Rhapsody). As a result of the restructuring, we no longer have operational control over Rhapsody and Rhapsody's operating performance is no longer consolidated with our condensed consolidated financial statements. We believe the restructuring will provide Rhapsody with the financial, intellectual property and other key assets, and the operational flexibility to compete more effectively in the digital music market. Rhapsody's inability to operate and compete effectively as an independent company could adversely impact its financial condition and results of operations, which in turn could materially impact our reported net income (loss) in future periods. In addition, Rhapsody has generated losses since its inception, and the new structure may not alter this trend. If Rhapsody continues to incur losses, or if it otherwise experiences a significant decline in its business, we may incur a loss on our investment, which could have a material adverse effect on our financial condition and results of operations.

Given the current proportion of the outstanding equity of Rhapsody that we hold, we anticipate that we will need to receive Rhapsody's unaudited quarterly financial statements in order to timely prepare our quarterly consolidated financial statements and also to report certain of Rhapsody's financial results, as may be required, in our quarterly reports on Form 10-Q. In addition, we may be required to include Rhapsody's annual audited financial statements in our annual report on Form 10-K in future periods. As we no longer exert operational control over Rhapsody, we cannot guarantee that Rhapsody will deliver its financial statements to us in a timely manner, or at all, or that the unaudited financial statement information provided by Rhapsody will not contain inaccuracies that are material to our reported results. Any failure to timely obtain Rhapsody's quarterly financial statements or to include its audited financial statements in our future annual reports on Form 10-K, if required, could cause our reports to be filed in an untimely manner, which would preclude us from utilizing certain registration statements and could negatively impact our stock price.

We depend upon our executive officers and key personnel, but may be unable to attract and retain them, which could significantly harm our business and results of operations.

Our success depends on the continued employment of certain executive officers and key employees. In January 2010, Rob Glaser, our founder and the only Chief Executive Officer in our history, resigned as Chief Executive Officer, but remained the Chairman of our Board of Directors. In March 2011, Robert Kimball resigned as Chief Executive Officer and Michael Lunsford was appointed as Interim Chief Executive Officer, and since November, 2011, Thomas Nielsen has served as our President and Chief Executive Officer. Accordingly, we are experiencing our third transition at the Chief Executive Officer level in less than two years. We cannot provide assurance that we will effectively manage these transitions, which may impact our ability to retain our remaining key executive officers and which could harm our business and operations to the extent there is customer or employee uncertainty arising from these transitions.

Our success is also dependent upon our ability to identify, attract and retain highly skilled management, technical and sales personnel. Qualified individuals are in high demand and competition for such qualified personnel in our industry, particularly engineering talent, is intense, and we may incur significant costs to attract or retain them. Our ability to attract and retain personnel may also be made more difficult by the uncertainty created by the recent changes at our Chief Executive Officer position. There can be no assurance that we will be able to attract and retain the key personnel necessary to sustain our business or support future growth.

Acquisitions and divestitures involve costs and risks that could harm our business and impair our ability to realize potential benefits from these transactions.

As part of our business strategy, we have acquired and sold technologies and businesses in the past and expect that we will continue to do so in the future. The failure to adequately manage transaction costs and address the financial, legal and operational risks raised by acquisitions and divestitures of technology and businesses could harm our business and prevent us from realizing the benefits of these transactions.

Transaction-related costs and financial risks related to completed and potential future purchase or sale transactions may harm our financial position, reported operating results, or stock price. Previous acquisitions have resulted in significant expenses, including amortization of purchased technology, amortization of acquired identifiable intangible assets and the incurrence of charges for the impairment of goodwill and other intangible assets, which are reflected in our operating expenses. New acquisitions and any potential additional future impairment of the value of purchased assets, including goodwill, could have a significant negative impact on our future operating results.

Purchase and sale transactions also involve operational risks that could harm our existing operations or prevent realization of anticipated benefits from a transaction. These operational risks include:

- difficulties and expenses in assimilating the operations, products, technology, information systems, and/or personnel of the acquired company;
- retaining key management or employees of the acquired company;
- entrance into unfamiliar markets, industry segments, or types of businesses;
- operating, managing and integrating acquired businesses in remote locations or in countries in which we have little or no prior experience;
- diversion of management time and other resources from existing operations;
- impairment of relationships with employees, affiliates, advertisers or content providers of our business or acquired business; and
- assumption of known and unknown liabilities of the acquired company, including intellectual property claims.

We may be unable to adequately protect our proprietary rights or leverage our technology assets, and may face risks associated with third-party claims relating to our intellectual property.

Our ability to compete across our businesses partly depends on the superiority, uniqueness and value of our technology, including both internally developed technology and technology licensed from third parties. To protect our proprietary rights, we rely on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements with our employees and third parties, and protective contractual provisions. Our efforts to protect our intellectual property rights may not assure our ownership rights in our intellectual property, protect or enhance the competitive position of our products and services or effectively prevent misappropriation of our technology. We also routinely receive challenges to our trademarks and other proprietary intellectual property that we are using in our business activities in China. Disputes regarding the validity and scope of patents or the ownership of technologies and rights associated with streaming media, digital distribution, and online businesses are common and likely to arise in the future. We may be forced to litigate to enforce or defend our patents and other intellectual property rights or to determine the validity and scope of other parties' proprietary rights, enter into royalty or licensing agreements on unfavorable terms or redesign our product features and services. Any such dispute would likely be costly and distract our management, and the outcome of any such dispute could fail to improve our business prospects or otherwise harm our business.

From time to time we receive claims and inquiries from third parties alleging that our technology may infringe the third parties' proprietary rights, especially patents. Third parties have also asserted and most likely will continue to assert claims against us alleging contract breaches, infringement of copyrights, trademark rights, trade secret rights or other proprietary rights, or alleging unfair competition or violations of privacy rights. These claims, even if not meritorious, could force us to spend significant financial and managerial resources. Given the broad distribution of some of our consumer products, any individual claim related to those products could give rise to liabilities that may be material to us. Currently, we are investigating or litigating a variety of such pending claims, some of which are described in "Note 15. Commitments and Contingencies" to Condensed Consolidated Financial Statements included in Part I, Item 1 of this report. In the event of a determination adverse to us, we may incur substantial monetary liability and/or be required to change its business practices. In addition, we recently entered into a definitive agreement with Intel Corporation pursuant to which we will sell substantially all of our patent assets. We believe that our patent portfolio may have in the past discouraged third parties from bringing infringement or other claims against us relating to the use of our technologies in our business. Accordingly, we cannot predict whether the sale of these patent assets to Intel will result in additional infringement or other claims against us from third parties.

Our business and operating results will suffer if our systems or networks fail, become unavailable, unsecured or perform poorly so that current or potential users do not have adequate access to our products, services and websites.

Our ability to provide our products and services to our customers and operate our business depends on the continued operation and security of our information systems and networks. A significant or repeated reduction in the performance, reliability, security or availability of our information systems and network infrastructure could harm our ability to conduct our business, and harm our reputation and ability to attract and retain users, customers, advertisers and content providers. We have on occasion experienced system errors and failures that caused interruption in availability of products or content or an increase in response time. Problems with our systems and networks could result from our failure to adequately maintain and enhance these systems and networks, natural disasters and similar events, power failures, HVAC failures, intentional actions to disrupt our systems and networks and many other causes. The vulnerability of a large portion of our computer and communications infrastructure is enhanced because much of it is located at a single leased facility in Seattle, Washington, an area that is at heightened risk of earthquake, flood, and volcanic events. Many of our services do not currently have fully redundant systems or a formal disaster recovery plan, and we may not have adequate business interruption insurance to compensate us for losses that may occur from a system outage.

The growth of our business is dependent in part on successfully managing our international operations.

Our international operations involve risks inherent in doing business globally, including difficulties in managing operations due to distance, language, and cultural differences, local economic conditions, different or conflicting laws and regulations, taxes, and exchange rate fluctuations. The functional currency of our foreign subsidiaries is the local currency of the country in which each subsidiary operates. We translate our subsidiaries' revenues into U.S. dollars in our financial statements, and continued volatility in foreign exchange rates, particularly if the U.S. dollar strengthens against the euro or the Korean won, may result in lower reported revenue or net assets in future periods. Our foreign currency exchange risk management program reduces, but does not eliminate, the impact of currency exchange rate movements. If we do not effectively manage any of the risks inherent in running our international businesses, our operating results and financial condition could be harmed.

We may be subject to market risk and legal liability in connection with our data collection and data security capabilities.

Many of our products are interactive Internet applications that by their very nature require communication between a client and server to operate. For example, to provide better consumer experiences and to operate effectively, our products send information, including personally identifiable information, to our servers. In addition, we sell many of our products and services through online sales transactions directly with consumers, through which we collect and store credit card information. In connection with our direct sales to consumers, we may be the victim of fraudulent transactions, including credit card fraud, which presents a risk to our revenue and potentially disrupts service to our consumers. While we take measures to protect our consumer data, we have experienced unauthorized access to our consumer data in the past, and it is possible that our security controls over consumer data may not prevent future improper access or disclosure of credit card information or personally identifiable information. We also are not yet fully compliant with the Payment Card Industry (PCI) compliance standard for data security in connection with our use of credit card services for payment. We have an extensive privacy policy concerning the collection, use and disclosure of user data involved in interactions between our client and server products. A security breach that leads to disclosure of consumer account information (including personally identifiable information) or any failure by us to comply with our posted privacy policy or existing or new legislation regarding privacy issues could harm our reputation, impact the market for our products and services, subject us to litigation, and require us to expend significant resources to mitigate the breach of security, comply with breach notification laws or address related matters. In addition, if we fail to satisfy timely the PCI compliance standards we may be subject to substantial monetary penalties and we could lose the ability to accept credit card payments for transactions with our customers. Any of these consequences could materially harm our business or our consolidated financial statements.

Changes in regulations applicable to the Internet and e-commerce that increase the taxes on the services we provide could materially harm our business and operating results.

As Internet commerce continues to evolve, increasing taxation by state, local or foreign tax authorities becomes more likely. For example, taxation of electronically delivered products and services or other charges imposed by government agencies may also be imposed. We believe we collect transactional taxes and are compliant and current in all jurisdictions where we believe we have a collection obligation for transaction taxes. Any regulation imposing greater taxes or other fees for products and services could result in a decline in the sale of products and services and the viability of those products and services, harming our business and operating results. A successful assertion by one or more states or foreign tax authorities that we should collect and remit sales or other taxes on the sale of our products or services could result in substantial liability for past sales.

In those countries where we have taxable presence, we collect value added tax, or VAT, on sales of "electronically supplied services" provided to European Union residents. The collection and remittance of VAT subjects us to additional currency fluctuation risks.

We may be subject to additional income tax assessments.

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes, income taxes payable, and net deferred tax assets. In the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different than that which is reflected in our historical financial statements. An audit or litigation can result in significant additional income taxes payable in the U.S. or foreign jurisdictions which could have a material adverse effect on our financial condition and results of operations.

Our Chairman of the Board beneficially owns approximately 38% of our stock, which gives him significant control over certain major decisions on which our shareholders may vote or may discourage an acquisition of us.

Robert Glaser, our Chairman of the Board, beneficially owns approximately 38% of our common stock. As a result, Mr. Glaser and his affiliates will have significant influence to:

- elect or defeat the election of our directors;
- amend or prevent amendment of our articles of incorporation or bylaws;
- effect or prevent a merger, sale of assets or other corporate transaction; and
- control the outcome of any other matter submitted to the shareholders for vote.

At our 2010 annual meeting of shareholders, Mr. Glaser withheld votes of his shares of our common stock with respect to the election of four of our directors, including three of our incumbent directors and Robert Kimball, our former President and Chief Executive Officer. Although these four directors were re-elected, none of them received approval of a majority of the votes cast. The stock ownership of Mr. Glaser and his affiliates may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of RealNetworks, which in turn could reduce our stock price or prevent our shareholders from realizing a premium over our stock price.

Provisions of our charter documents, Shareholder Rights Plan, and Washington law could discourage our acquisition by a third-party.

Our articles of incorporation provide for a strategic transaction committee of the board of directors. Without the prior approval of this committee, and subject to certain limited exceptions, the board of directors does not have the authority to:

- adopt a plan of merger;
- authorize the sale, lease, exchange or mortgage of assets representing more than 50% of the book value of our assets prior to the transaction or on which our long-term business strategy is substantially dependent;
- authorize our voluntary dissolution; or
- take any action that has the effect of any of the above.

In addition, Mr. Glaser has special rights under our articles of incorporation to appoint or remove members of the strategic transaction committee at his discretion that could make it more difficult for RealNetworks to be sold or to complete another change of control transaction without Mr. Glaser's consent. RealNetworks has also entered into an agreement providing Mr. Glaser with certain contractual rights relating to the enforcement of our charter documents and Mr. Glaser's roles and authority within RealNetworks. These rights and his role as Chairman of the Board of Directors, together with Mr. Glaser's significant beneficial ownership, create unique potential for concentrated influence of Mr. Glaser over potentially material transactions involving RealNetworks and decisions regarding the future strategy and leadership of RealNetworks.

We have adopted a shareholder rights plan, which was amended and restated in December 2008, which provides that shares of our common stock have associated preferred stock purchase rights. The exercise of these rights would make the acquisition of RealNetworks by a third-party more expensive to that party and has the effect of discouraging third parties from acquiring RealNetworks without the approval of our board of directors, which has the power to redeem these rights and prevent their exercise.

Washington law imposes restrictions on some transactions between a corporation and certain significant shareholders. The foregoing provisions of our charter documents, shareholder rights plan, our agreement with Mr. Glaser, and Washington law, as well as our charter provisions that provide for a classified board of directors and the availability of "blank check" preferred stock, could have the effect of making it more difficult or more expensive for a third-party to acquire, or of discouraging a third-party from attempting to acquire, control of us. These provisions may therefore have the effect of limiting the price that investors might be willing to pay in the future for our common stock.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Our corporate and administrative headquarters and certain research and development and sales and marketing personnel are located at our facility in Seattle, Washington.

We lease properties primarily in the following locations that are utilized by all of our business segments, unless otherwise noted below, to house our research and development, sales and marketing, and general and administrative personnel:

Location	Area leased (sq. feet)	Lease expiration
Seattle, Washington	264,000	September 2014, with an option to renew for two five-year periods
Seoul, Republic of Korea(1)	46,000	October 2014
Reston, Virginia(1)	29,000	September 2017

(1) This facility is utilized only by our Core Products segment.

In addition, we lease smaller facilities with multi-year terms in the U.S. and foreign countries, some of which support the operations of all of our business segments while others are dedicated to a specific business segment. We also lease various other smaller facilities in the U.S. and foreign countries primarily for our sales and marketing personnel. A majority of these other leases are for a period of less than one year. We believe that our properties are in good condition, adequately maintained and suitable for the conduct of our business. For additional information regarding our obligations under leases, see Note 15 of Notes to Consolidated Financial Statements included in Item 8 of this report.

Item 3. *Legal Proceedings*

See Note 15 of Notes to Consolidated Financial Statements included in Item 8 of this report for information regarding legal proceedings.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II.

Item 5. *Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities*

Our common stock has been traded on the Nasdaq Stock Market LLC under the symbol "RNWK" since our initial public offering in November 1997. There is no assurance that any quantity of the common stock could be sold at or near reported trading prices.

The following table sets forth for the periods indicated the high and low sale prices for our common stock, as reported on the Nasdaq Stock Market LLC. These quotations represent prices between dealers, after giving effect to the 1-for-4 reverse stock split effective August 30, 2011, and do not include retail markups, markdowns or commissions and may not necessarily represent actual transactions.

	Years Ended December 31,			
	2011		2010	
	High	Low	High	Low
First Quarter	$17.24	$14.00	$21.64	$14.40
Second Quarter	15.08	13.20	19.80	12.60
Third Quarter	14.60	7.40	14.96	10.36
Fourth Quarter	10.20	6.92	17.24	11.72

As of January 31, 2012, there were approximately 133 holders of record of our common stock. Most shares of our common stock are held by brokers and other institutions on behalf of shareholders.

We paid a special cash dividend of $1.00 per common share to the holders of our common stock on August 23, 2011. The payment of the special dividend was based on an analysis of RealNetworks capital structure and the belief that we had excess cash relative to our future operational or strategic needs. The declaration and payment of future dividends, as well as the amount thereof, are subject to the discretion of our board of directors and will depend upon our results of operations, financial condition, capital levels, cash requirements, future prospects and other factors deemed relevant by our board of directors. Accordingly, there can be no assurance that we will declare and pay any dividends in the future.

Set forth below is a graph comparing the cumulative total return to shareholders on our common stock with the cumulative total return of the Nasdaq Composite Index and the Dow Jones U.S. Technology Index for the period beginning on December 31, 2006 and ended on December 31, 2011.

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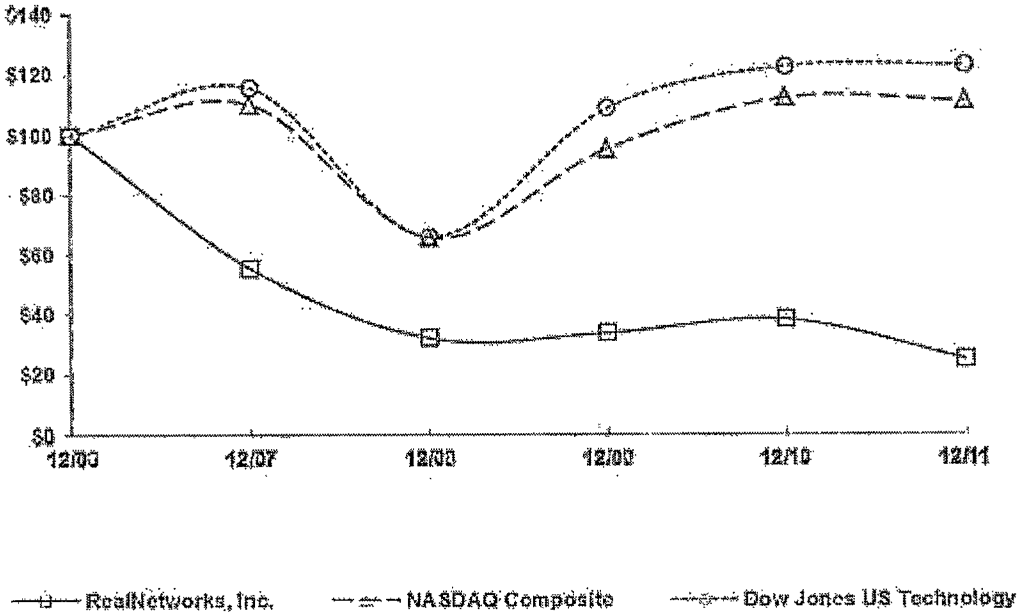
Comparison of 5 Year Cumulative Total Return Among RealNetworks, Inc., the NASDAQ Composite Index and the Dow Jones U.S. Technology Index



	December 31, 2006	December 31, 2007	December 31, 2008	December 31, 2009	December 31, 2010	December 31, 2011
RealNetworks, Inc.	$ 100	$ 55.67	$ 32.27	$ 33.91	$ 38.39	$ 25.15
NASDAQ Composite Index	$ 100	$ 110.26	$ 65.65	$ 95.19	$ 112.10	$ 110.81
Dow Jones U.S. Technology Index	$ 100	$ 115.70	$ 66.10	$ 108.72	$ 122.40	$ 122.59

The total return on our common stock and each index assumes the value of each investment was $100 on December 31, 2006, and that all dividends were reinvested. Return information is historical and not necessarily indicative of future performance.

Item 6. ***Selected Financial Data***

The following selected consolidated financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Consolidated Financial Statements and Notes to Consolidated Financial Statements included elsewhere in this report.

	Years Ended December 31,				
	2011	2010	2009	2008	2007
	(In thousands, except per share data)				
Consolidated Statements of Operations Data:					
Net revenue	$335,686	$401,733	$ 562,264	$ 604,810	$567,620
Cost of revenue	126,637	144,723	222,142	233,244	213,491
Impairment of deferred costs and prepaid royalties	19,962	—	—	19,666	—
Gross profit	189,087	257,010	340,122	351,900	354,129
Operating expenses:					
Research and development	70,212	100,955	119,448	113,680	102,731
Sales and marketing	111,300	118,543	165,856	211,922	209,412
Advertising with related party	—	1,065	33,292	44,213	24,360
General and administrative	37,181	51,217	79,164	69,981	67,326
Impairment of goodwill and long-lived assets	—	—	175,583	192,676	—
Restructuring and other charges	8,650	12,361	4,017	6,833	3,748
Loss (gain) on excess office facilities	(646)	7,396	—	—	—
Subtotal operating expenses	226,697	291,537	577,360	639,305	407,577
Antitrust litigation (benefit) expenses, net	—	—	—	—	(60,747)
Total operating expenses	226,697	291,537	577,360	639,305	346,830
Operating income (loss)	(37,610)	(34,527)	(237,238)	(287,405)	7,299
Other income (expense), net	(6,819)	204	(2,470)	27,800	48,688
Income (loss) before income taxes	(44,429)	(34,323)	(239,708)	(259,605)	55,987
Income taxes	17,329	36,451	(3,321)	(25,828)	(27,456)
Net income (loss)	(27,100)	2,128	(243,029)	(285,433)	28,531
Net loss attributable to the noncontrolling interest in Rhapsody	—	2,910	26,265	41,555	19,784
Net income (loss) attributable to common shareholders	$ (27,100)	$ 5,038	$(216,764)	$(243,878)	$ 48,315
Basic net income (loss) per share available to common shareholders	$ (0.79)	$ 0.26	$ (6.55)	$ (6.95)	$ 1.27
Diluted net income (loss) per share available to common shareholders	$ (0.79)	$ 0.26	$ (6.55)	$ (6.95)	$ 1.16
Shares used to compute basic net income (loss) per share available to common shareholders	34,185	33,894	33,653	35,108	37,916
Shares used to compute diluted net income (loss) per share available to common shareholders	34,185	34,013	33,653	35,108	41,602
Special cash dividend of $1.00 per common share	$136,793	—	—	—	—

	As of December 31,				
	2011	2010	2009	2008	2007
	(In thousands)				
Consolidated Balance Sheets Data:					
Cash, cash equivalents, and short-term investments	$185,072	$334,321	$384,900	$370,734	$ 556,629
Working capital	160,787	286,315	278,198	266,990	351,066
Other intangible assets, net	7,169	6,952	10,650	18,727	107,677
Goodwill	6,198	4,960	—	175,264	353,153
Total assets	377,790	565,442	606,883	789,013	1,275,442
Shareholders' equity	271,287	412,745	375,811	553,558	875,104

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Overview

We manage our business and report segment revenue and profit (loss) in three segments: (1) Core Products, (2) Emerging Products and (3) Games. Within Core Products, our revenue is primarily from the sale of our software as a service (SaaS) offerings, and within Emerging Products, our revenue is primarily from the sale of our RealPlayer media player software and from the associated distribution of third-party products. We also report financial results from our former Music segment, which primarily includes financial results and operating performance of our Rhapsody joint venture, on a historical basis only. In addition, we report common corporate overhead expenses, including but not limited to finance, legal, headquarters facilities and stock compensation costs, in the aggregate as Corporate results. Our most significant expenses relate to cost of revenue, compensating employees and selling and marketing our products and services. In the years ended December 31, 2011 and 2010, we also incurred significant charges relating to restructuring activities.

In 2011, our operating results were impacted by revenue declines in our Core Products and Games segments, operational restructuring activities that continued from 2010 into 2011 and impairment of certain deferred costs. Approximately half of our total revenue decline of $66.0 million for the year ended December 31, 2011, was due to declines in revenue in our Core Products and Games segments. The remaining portion of the decline was primarily due to the deconsolidation of the operating results of our Rhapsody joint venture from our consolidated financial statements as of March 31, 2010. Our SaaS business within Core Products is experiencing competitive pricing pressure from carriers and the proliferation of smartphone applications and services, which do not depend on our carrier customers for distribution to consumers. In addition, pricing for our intercarrier messaging services is changing to fixed-price structures. In our Games segment, consumer's game play is shifting from downloadable PCs games to social networks and mobile devices, and in 2011, we focused on developing social games and monetizing social game play experiences. However, the revenue we generated from social games in 2011 did not offset the declines in revenue from sales of PC games and online game subscriptions.

In 2010 and continuing into 2011, we implemented a restructuring of our business, which included deconsolidating our Rhapsody joint venture from our financial statements as of March 31, 2010, and other significant internal restructuring measures such as reductions in personnel and facilities and the discontinuance or de-emphasis of certain unprofitable products and service offerings. As a result of these activities, we recorded restructuring charges of $8.7 million and $12.4 million, respectively, for the years ended December 31, 2011 and 2010, respectively. In the fourth quarter of 2011, we recorded an impairment of deferred SaaS costs of $20.0 million related to certain of our wireless carrier customers.

In 2011, we paid a special cash dividend of $1.00 per common share on August 23, 2011, to shareholders of record as of the close of business on August 9, 2011, and effected a one-for-four reverse stock split of the Company's common stock on August 30, 2011. The aggregate amount of the special cash dividend was $136.8 million.

Summary of Results for the Years ended December 31, 2011, 2010 and 2009

Consolidated results of operations for the years ended December 31, 2011, 2010 and 2009 are as follows (dollars in thousands):

	2011	2010	2009	2011-2010 Change	% Change	2010-2009 Change	% Change
Total revenue	$335,686	$401,733	$ 562,264	$(66,047)	(16)%	$(160,531)	(29)%
Cost of revenue	126,637	144,723	222,142	(18,086)	(12)%	(77,419)	(35)%
Impairment of deferred costs	19,962	—	—	19,962	100%	—	—
Gross profit	189,087	257,010	340,122	(67,923)	(26)%	(83,112)	(24)%
Gross margin	56%	64%	60%	(8)%		4%	
Total operating expenses	226,697	291,537	577,360	(64,840)	(22)%	(285,823)	(50)%
Operating loss	$ (37,610)	$ (34,527)	$(237,238)	$ (3,083)	(9)%	$ 202,711	85 %

2011 compared with 2010

Revenue decreased by $66.0 million, or 16%. Approximately half, or $35.7 million of the decline was due to the deconsolidation of Rhapsody on March 31, 2010 in addition to declines of $35.1 million in our Core Products and Games segments. Cost of revenue decreased by $18.1 million compared with the year earlier period due primarily to lower costs of $21.9 million from the deconsolidation of our Rhapsody joint venture. We recorded impairments of deferred costs of $20.0 million in the fourth quarter of 2011 related to certain contracts with carrier customers for which the total estimated costs exceeded the total estimated revenues expected to be recognized. Operating expenses improved by $64.8 million due primarily to reduced personnel and related costs of $31.6 million, $13.9 million resulting from the Rhapsody deconsolidation, and lower restructuring charges and losses on excess office facilities totaling $11.8 million.

2010 compared with 2009

Revenue decreased by $160.5 million, or 29%, primarily due to the deconsolidation of Rhapsody on March 31, 2010, and declines in our Core Products and Games segments. Operating expenses improved due to a $175.6 million impairment of goodwill in 2009, lower expenses of $78.1 million associated with the deconsolidation of Rhapsody and cost reduction initiatives as part of our restructuring efforts in 2010.

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Segment Reporting

Core Products

The Core Products segment primarily generates revenue and incurs costs from the sales of SaaS services, such as ring-back tones, inter-carrier messages, music on demand and video on demand, professional services and system integration services to carriers and mobile handset companies, sales of licenses of our software products such as Helix for handsets, and consumer subscriptions such as SuperPass and international radio subscriptions. Core Products segment results of operations for the years ended December 31, 2011, 2010 and 2009 are as follows (dollars in thousands):

	2011	2010	2009	2011-2010 Change	% Change	2010-2009 Change	% Change
Total revenue	$191,240	$212,845	$233,365	$(21,605)	(10)%	$(20,520)	(9)%
Cost of revenue	83,696	83,733	81,774	(37)	(0)%	1,959	2%
Impairment of deferred costs	19,329	—	—	19,329	100%	—	—
Gross profit	88,215	129,112	151,591	(40,897)	(32)%	(22,479)	(15)%
Gross margin	46%	61%	65%	(15)%		(4)%	
Total operating expenses	75,188	86,217	138,502	(11,029)	(13)%	(52,285)	(38)%
Operating income (loss)	$ 13,027	$ 42,895	$ 13,089	$(29,868)	(70)%	$ 29,806	228%

2011 compared with 2010

Revenue decreased by $21.6 million, or 10%. SaaS revenue decreased by $14.2 million primarily due to lower intercarrier messaging contract prices that contributed $8.8 million to the decline, and a $5.2 million decline in revenues from our tone business primarily due to a decline in subscribers. In addition, subscription revenue, mainly from our SuperPass product declined by $5.3 million during the year ended December 31, 2011, compared with the same period in 2010 due primarily to a decline in the number of subscribers.

Gross margin decreased primarily due to the impairments of deferred costs as well as lower SaaS intercarrier messaging contract prices, with no corresponding decreases in cost of revenue. The impairments of deferred costs of $19.3 million within the year ended December 31, 2011 related to certain contracts with carrier customers for which the total estimated costs exceeded the total estimated revenues expected to be recognized. Operating expenses decreased by $11.0 million primarily due to reductions in personnel and related costs that resulted from our restructuring efforts.

2010 compared with 2009

Revenue decreased by $20.5 million, or 9%. SaaS revenue decreased by $14.6 million primarily due to the merger of certain carrier customers resulting in lower overall contract prices with these customers as well as a loss of total subscribers under management. In addition, revenue from system integration, a business that we have de-emphasized since 2008, decreased by $3.5 million.

Gross margin decreased primarily due to lower SaaS contract prices with no corresponding decreases in cost of revenue. Operating expenses decreased by $52.3 million primarily due to impairments of long lived assets and goodwill of $50.5 million in 2009, with no similar impairments in 2010.

Emerging Products

The Emerging Products segment primarily generates revenue and incurs costs from sales of the RealPlayer and its related products, such as revenue from distribution of third party software products, advertising on RealPlayer websites and sales of RealPlayer Plus software licenses to consumers. Also included within the Emerging Products segment are the costs to build and develop new product offerings for consumers and corporate customers. Emerging Products segment results of operations for the years ended December 31, 2011, 2010 and 2009 are as follows (dollars in thousands):

	2011	2010	2009	2011-2010 Change	% Change	2010-2009 Change	% Change
Total revenue	$46,590	$41,761	$ 45,207	$ 4,829	12%	$ (3,446)	(8)%
Cost of revenue	11,879	7,123	6,884	4,756	67%	239	3%
Impairment of deferred costs	633	—	—	633	100%	—	—
Gross profit	34,078	34,638	38,323	(560)	(2)%	(3,685)	(10)%
Gross margin	73%	83%	85%	(10)%		(2)%	
Total operating expenses	36,011	28,053	73,211	7,958	28%	(45,158)	(62)%
Operating income (loss)	$ (1,933)	$ 6,585	$(34,888)	$ (8,518)	(129)%	$ 41,473	119%

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2011 compared with 2010

Revenue increased by $4.8 million, or 12%. Higher unit sales of our RealPlayer Plus software contributed approximately $3.9 million to the increase during the period, due to increased marketing efforts. Cost of revenue increased $4.8 million mainly due to increases related to certain advertising agreements and increased support costs for the distribution of RealPlayer and other products. Operating expenses increased by $8.0 million primarily due to increased marketing expense to drive the distribution of RealPlayer and related third-party software.

2010 compared with 2009

Revenue decreased by $3.4 million, or 8%. Lower unit distribution of third-party software products, primarily due to increased market saturation of the software products we distribute, accounted for the majority of the decline. Gross margin did not change materially. Operating expenses declined by $45.2 million primarily due to impairments of long lived assets and goodwill of $46.8 million in 2009, with no similar impairments in 2010.

Games

The Games segment primarily generates revenue and incurs costs from the creation, distribution and sales of games licenses, online games subscription services, advertising on game sites and social network sites, games syndication services and microtransactions from online and social games and sales of mobile games. Games segment results of operations for the years ended December 31, 2011, 2010 and 2009 are as follows (dollars in thousands):

	2011	2010	2009	2011-2010 Change	% Change	2010-2009 Change	% Change
Total revenue	$97,856	$111,394	$122,824	$(13,538)	(12)%	$(11,430)	(9)%
Cost of revenue	30,646	29,071	32,862	1,575	5%	(3,791)	(12)%
Gross profit	67,210	82,323	89,962	(15,113)	(18)%	(7,639)	(8)%
Gross margin	69%	74%	73%	(5)%		1%	
Total operating expenses	60,633	78,275	127,908	(17,642)	(23)%	(49,633)	(39)%
Operating income (loss)	$ 6,577	$ 4,048	$ (37,946)	$ 2,529	63%	$ 41,994	111%

2011 compared with 2010

Revenue decreased by $13.5 million, or 12%. The decline was due to lower license revenue of $4.8 million primarily due to a decrease in the number of games sold through our games syndication services. Further contributing to the decline was lower revenue from our subscription products of $4.8 million as a result of fewer subscribers. In addition, distribution of third party software declined by $3.7 million due to reduced traffic for our games properties.

Cost of revenue increased by $1.6 million, or 5%. The increase was due primarily to higher costs associated with distribution of third party games as well as increased delivery costs for our games products and services. Gross margins decreased due to lower subscription revenue and lower distribution of third party software, both of which are higher-margin revenues.

Operating expenses decreased by $17.6 million, or 23%. The decrease was primarily due to reductions in personnel and related costs of approximately $8.7 million. Further, we reduced our spending on marketing and related activities by approximately $3.4 million during the year. In addition, depreciation expense related to our Games technology platform decreased by $3.1 million.

2010 compared with 2009

Revenue decreased by $11.4 million, or 9%. The decrease was primarily due to a decline in the number of games units sold combined with lower average selling prices due to continued competitive pressures, resulting in a decrease of $9.1 million. In addition, lower unit distribution of third party software products contributed $1.3 million of the decrease. Gross margin did not change materially. Operating expenses decreased by $49.6 million primarily due to impairment of long lived assets and goodwill of $41.2 million in 2009, with no similar impairments in 2010. Further contributing to the decline were reductions in personnel and related costs of $7.5 million and in marketing expenses of $1.9 million as part of our restructuring efforts in 2010.

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Music

Music segment results of operations for the years ended December 31, 2011, 2010 and 2009 are as follows (dollars in thousands):

	2011	2010	2009	2011-2010 Change	% Change	2010-2009 Change	% Change
Total revenue	$ —	$ 35,733	$ 160,868	$ (35,733)	NM	$ (125,135)	(78)%
Cost of revenue	—	21,864	98,322	(21,864)	NM	(76,458)	(78)%
Gross profit	—	13,869	62,546	(13,869)	NM	(48,677)	(78)%
Gross Margin	—	39%	39%	—%		—%	
Total operating expenses	—	13,911	129,085	(13,911)	NM	(115,174)	(89)%
Operating income (loss)	$ —	$ (42)	$ (66,539)	$ 42	NM	$ 66,497	100%

On March 31, 2010, we completed the restructuring of Rhapsody, which resulted in our ownership interest of Rhapsody decreasing to approximately 47% and the loss of our operating control over Rhapsody. Our revenue and operating results for the first quarter of 2010 includes results from Rhapsody's operations. Beginning with the second quarter of 2010, Rhapsody's revenue and other operating results are no longer consolidated within our financial statements and we are not recording any operating or other financial results for our Music segment. We now report our share of Rhapsody's income or losses as "Equity in net loss of Rhapsody and other equity method investments" in "Other income." Our share of Rhapsody's losses for the year ended December 31, 2011 was $7.9 million. Our share of Rhapsody's losses for the nine-month period from April 1, 2010, to December 31, 2010, was $14.2 million.

Prior to April 1, 2010, our Music business was primarily operated through our Rhapsody joint venture. Music segment revenue and costs as reported in our financial statements primarily reflected sales of digital music content through Rhapsody's MP3 music store, the Rhapsody and international radio subscription services, and advertising on Rhapsody's music websites.

2010 compared with 2009

Revenue declined by $125.1 million in 2010 from 2009 due to the deconsolidation of Rhapsody on March 31, 2010. Rhapsody's revenue for the nine month period from April 1, 2010 to December 31, 2010 was lower than the revenue of our Music segment for the same period in 2009 due to lower average selling prices of Rhapsody's premium subscription service, partially offset by an increase in the number of subscribers.

Cost of revenue declined by $76.5 million in 2010 from 2009 due to the deconsolidation of Rhapsody on March 31, 2010. Rhapsody's gross margin for the nine-months period from April 1, 2010 to December 31, 2010 declined compared with the gross margin for our Music segment for the same period in 2009 due to lower average selling prices, without a corresponding decline in content costs and costs of providing its subscription services.

Operating expenses declined by $115.2 million due to the deconsolidation of Rhapsody. Rhapsody's operating expenses for the period from April 1, 2010 to December 31, 2010 were less than the operating expenses of our Music segment for the same period in 2009 due primarily to $37.0 million in impairment charges associated with long lived assets and goodwill recorded in 2009.

Corporate

Certain corporate-level activity is not allocated to our segments, including costs of: human resources, legal, finance, information technology, procurement activities, litigation, corporate headquarters, legal settlements and contingencies, stock compensation, losses on excess office facilities and employee severance costs. Corporate amounts for the years ended December 31, 2011, 2010 and 2009 are as follows (dollars in thousands):

	2011	2010	2009	2011-2010 Change	% Change	2010-2009 Change	% Change
Cost of revenue	$ 416	$ 2,932	$ 2,300	$ (2,516)	(86)%	$ 632	27%
Total operating expenses	54,865	85,081	108,654	(30,216)	(36)%	(23,573)	(22)%
Operating loss	$(55,281)	$(88,013)	$(110,954)	$ 32,732	37%	$ 22,941	21%

2011 compared with 2010

Cost of revenue declined by $2.5 million, or 86%. The majority of the decline was the result of a change of estimates in our accrued royalties, which resulted in a reversal of approximately $3.6 million in royalty expense primarily associated with our historical music business.

Operating expenses decreased by $30.2 million, or 36%. The decrease was due in part to lower restructuring charges and loss on excess office facilities of approximately $11.8 million as well as a reduction in personnel and related costs and professional services expense of approximately $11.5 million. The remaining decrease in operating expenses was due in part to a benefit from an insurance reimbursement of $6.4 million related to previously settled litigation, which was accounted for as a reduction to operating expenses.

2010 compared with 2009

Operating expenses decreased by $23.6 million, or 22%, due mainly to restructuring efforts and cost savings initiatives implemented throughout 2010. The decrease was due to lower personnel and related costs of $6.5 million and lower legal and other professional services expenses of $15.5 million, the majority of which related to litigation and settlement costs associated with a lawsuit relating to our proposed RealDVD product and an arbitration proceeding in 2009. In addition, stock compensation decreased $8.8 million primarily as a result of the deconsolidation of Rhapsody on March 31, 2010 and headcount reductions. These decreases in operating expenses were offset by an increase in restructuring costs of $15.7 million related to severance payments and loss on excess office facilities.

Operating Expenses

Research and Development

Research and development expenses consist primarily of salaries and related costs of research and development personnel, expense associated with stock-based compensation, and consulting fees associated with product development. To date, all research and development costs have been expensed as incurred because technological feasibility for software products is generally not established until substantially all development is complete. Research and development costs and year-over-year changes are as follows (dollars in thousands):

	2011	2010	2009	2011-2010 Change	% Change	2010-2009 Change	% Change
Research and Development	$70,212	$100,955	$119,448	$(30,743)	(31)%	$(18,493)	(15)%
As a percent of revenue	21%	25%	21%				

2011 compared with 2010

Research and development expenses, including non-cash stock-based compensation, decreased by $30.7 million, or 31%. The decline was primarily due to a decrease in personnel and related costs of approximately $18.5 million as well as a decrease in depreciation expense related to our Games technology platform of $3.1 million. In addition, the removal of Rhapsody's operating expenses from our consolidated financial results beginning April 1, 2010, contributed approximately $3.8 million to the decline. Further contributing to the decline was the reduction of $5.7 million of professional services costs due primarily to reduced development work in our SaaS business. The decrease in research and development expenses as a percentage of total revenue from 25% in 2010 to 21% in 2011 was due primarily to our ongoing cost-containment efforts.

2010 compared with 2009

Research and development expenses, including non-cash stock-based compensation, decreased by $18.5 million, or 15%. The decrease was primarily due to the deconsolidation of Rhapsody on March 31, 2010, accounting for $9.3 million of the decrease. In addition, personnel and related costs, including non-cash stock-based compensation, decreased by approximately $11.2 million as a result of lower headcount from our cost reduction efforts. No other single factor contributed materially to these changes during the period. The increase in research and development expenses as a percentage of total revenue from 21% in 2009 to 25% in 2010 was due primarily to our decision to continue to invest in product development despite a decline in total revenue.

Sales and Marketing

Sales and marketing expenses consist primarily of salaries and related costs for sales and marketing personnel, sales commissions, amortization of certain intangible assets capitalized in our acquisitions, credit card fees, subscriber acquisition costs, consulting fees, trade show expenses, advertising costs and costs of marketing collateral. Sales and marketing costs and year-over-year changes are as follows (dollars in thousands):

	2011	2010	2009	2011-2010 Change	% Change	2010-2009 Change	% Change
Sales and Marketing	$111,300	$118,543	$165,856	$ (7,243)	(6)%	$(47,313)	(29)%
As a percent of revenue	33%	30%	30%				

2011 compared with 2010

Sales and marketing expenses, including non-cash stock-based compensation, decreased by $7.2 million, or 6%. The decrease was due primarily to the removal of Rhapsody's operating expenses of $8.8 million from our consolidated financial results beginning

April 1, 2010. Also contributing to the overall decrease of sales and marketing expenses was a decrease in personnel and related costs of approximately $5.7 million due to our restructuring activities and reduced third-party sales commissions of $1.6 million. These decreases in sales and marketing costs were partially offset by an increase in marketing expenses for RealPlayer of $8.1 million, as well as higher professional services expense of $2.4 million.

2010 compared with 2009

Sales and marketing expenses, including non-cash stock-based compensation, decreased by $47.3 million, or 29%. The decrease was primarily due to the deconsolidation of Rhapsody on March 31, 2010, accounting for $31.9 million of the decrease. A reduction in personnel and related costs, including non-cash stock-based compensation, resulted in a decline of approximately $7.3 million, and a decrease in marketing and other professional services expenses reduced costs by an additional $7.1 million. No other single factor contributed materially to the decrease during the periods.

Advertising with Related Party

During 2010, and 2009, Rhapsody spent $1.1 million, and $33.3 million, respectively, in advertising with MTVN. The 2010 expense reflects advertising Rhapsody spent with MTVN during the quarter ended March 31, 2010, prior to the restructuring of Rhapsody and the deconsolidation.

General and Administrative

General and administrative expenses consist primarily of salaries and related personnel costs, fees for professional and temporary services and contractor costs, stock-based compensation, and other general corporate costs. General and administrative costs and year-over-year changes are as follows (dollars in thousands):

	2011	2010	2009	2011-2010 Change	% Change	2010-2009 Change	% Change
General and Administrative	$37,181	$51,217	$79,164	$(14,036)	(27)%	$(27,947)	(35)%
As a percent of revenue	11%	13%	14%				

2011 compared with 2010

General and administrative expenses, including non-cash stock-based compensation, decreased by $14.0 million, or 27%. The decrease was due primarily to a reduction in personnel and related costs of $7.7 million and an insurance reimbursement of $6.4 million related to settlement costs associated with previously-settled litigation.

2010 compared with 2009

General and administrative expenses, including non-cash stock-based compensation, decreased by $27.9 million, or 35%. The deconsolidation of Rhapsody on March 31, 2010 accounted for $4.7 million of the decrease. The remaining decrease was due to reduction in legal and other professional services expenses of approximately $15.0 million, the majority of which related to litigation and settlement costs associated with the RealDVD litigation and an arbitration proceeding in 2009, and a reduction in personnel and headcount-related costs, including non-cash stock-based compensation, from our continued cost cutting efforts of $6.4 million. No other single factor contributed materially to the decrease during the period.

Impairment of Deferred Costs

We assess the recoverability of all deferred project costs on a quarterly basis. As of December 31, 2011, we determined that the total estimated costs associated with certain carrier customer projects exceeded the total estimated revenues expected to be recognized on those projects. As a result, we recorded a charge of approximately $20.0 million, which included $16.7 million in deferred project costs and an additional $3.3 million of equipment and software that related solely to those projects. See Note 7 of Notes to Consolidated Financial Statements included in Item 8 of this report for more information. No such charges existed in 2010 or 2009.

Impairment of Goodwill

During the quarter ended June 30, 2009, we concluded that the implied fair value of goodwill was zero for each of our reporting units. As a result, we recorded impairments of $175.6 million, during the quarter ended June 30, 2009. No other impairments of goodwill were recorded in 2009. No goodwill impairments were recognized in either 2011 or 2010.

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Restructuring and Other Charges

During the years ended December 31, 2011, 2010, and 2009, we recorded restructuring and other charges associated with the realignment and reorganization of our business totaling $8.7 million, $12.4 million, and $4.0 million, respectively. The majority of these charges in all three years were severance charges resulting from workforce reductions and other employee separations costs.

Loss on Excess Office Facilities

As part of our efforts to reorganize our business and operational structure, including the restructuring of Rhapsody, we reduced the use of our current office space in our headquarters in Seattle, as well as other offices in Europe and Asia. For the year ended December 31, 2010, the estimated loss on excess office facilities including the write-down of leasehold improvements was approximately $7.4 million. Our estimates are based upon many factors including projections of sublease rates and the time period required to locate tenants. For the year ended December 31, 2011 we recorded an expense reduction of $0.6 million resulting from our change in estimate for sublease rental income. Although we believe our estimates are reasonable, additional adjustments may result if our actual experience differs from our projections.

Other Income (expense), Net

Other income (expense), net consists primarily of interest income on our cash, cash equivalents and short-term investments; gain related to the sale of certain of our equity investments; equity in net income (loss) of investments; gain from the sales of interest in and deconsolidation of Rhapsody; and impairment of certain equity investments. Other income (expense), net and year-over-year changes are as follows (dollars in thousands):

	2011	Change	2010	Change	2009
Interest income, net	$ 1,552	(36)%	$ 2,417	(39)%	$ 3,969
Gain (loss) on sale of equity investments	—	n/a	(9)	(101)%	688
Equity in net loss of Rhapsody and other equity method investments	(7,898)	(44)%	(14,164)	978%	(1,313)
Impairment of equity investments	—	n/a	—	(100)%	(5,020)
Gain on deconsolidation of Rhapsody	—	n/a	10,929	n/a	—
Other income (expenses)	(473)	(146)%	1,031	(229)%	(794)
Other income (expense), net	$(6,819)	(3,443)%	$ 204	108%	$(2,470)

Other income (expense), net decreased during 2011 due primarily to the $10.9 million one-time gain in 2010 on the deconsolidation of Rhapsody. This was partially offset by a decrease in equity loss for our investment in Rhapsody of $6.3 million. Since March 31, 2010, we have not held a controlling interest in Rhapsody and we no longer consolidate Rhapsody's results with our own. We account for our ownership interest in Rhapsody as an equity method investment. Rhapsody's financial position as of March 31, 2010 and its operating results beginning April 1, 2010 are no longer consolidated with our consolidated financial statements.

Other income (expense), net improved during 2010 due primarily to the gain on deconsolidation recognized as part of the separation with Rhapsody. This was partially offset by increases in our share of the net losses from our investment in Rhapsody and other equity method investments.

Income Taxes

During the years ended December 31, 2011, 2010, and 2009, we recognized income tax benefits of $17.3 million and $36.5 million, and income tax expense of $3.3 million, respectively, related to U.S. and foreign income taxes. The tax benefit in the year ended December 31, 2011 was largely the result of a release in our valuation allowance relating to significant known income in 2012 due to the pending sale of certain patent assets and other technology assets to Intel Corporation for $120.0 million in cash in January 2012. The income tax benefit in 2010 was largely the result of the reversal of unrecognized tax benefits and the restructuring of Rhapsody. The income tax expense in 2009 was primarily the result of impairments of long-lived assets and changes in our valuation allowance.

We assess the likelihood that our deferred tax assets will be recovered based upon our consideration of many factors, including the current economic climate, our expectations of future taxable income, our ability to project such income, and the appreciation of our investments and other assets. During the year ended December 31, 2011, we released $22.6 million of our valuation allowance related to our deferred tax assets. These deferred tax assets relate primarily to capital loss carryforwards, and net operating loss carryforwards which we determined, in accordance with FASB ASC 740, Accounting for Income Taxes, we will more likely than not be able to utilize due to the generation of sufficient taxable income in the future from the transaction with Intel described above. Of the total valuation allowance release, $22.6 million was recorded as an income tax benefit in the Consolidated Financial Statements. We maintain a partial valuation allowance of $105.2 million for our deferred tax assets due to uncertainty regarding their realization as of December 31, 2011. Adjustments could be required in the future if we estimate that the amount of deferred tax assets to be realized is more or less than the net amount we have recorded. Any increase or decrease in the valuation allowance could have the effect of increasing or decreasing the income tax provision in the statement of operations.

We generate income in a number of foreign jurisdictions, some of which have higher tax rates and some of which have lower tax rates relative to the U.S. federal statutory rate. Changes to the blend of income between jurisdictions with higher or lower effective tax rates than the U.S. federal statutory rate could affect our effective tax rate. For the year ended December 31, 2011, decreases in tax expense from income generated in foreign jurisdictions with lower tax rates in comparison to the U.S. federal statutory rate was offset by increases in tax expense from income generated in foreign jurisdictions having comparable, or higher tax rates in comparison to the U.S. federal statutory rate. As such, the effect of differences in foreign tax rates on the Company's tax expense for the year ended December 31, 2011 is minimal.

In the fourth quarter of 2011, we received a cash payment of approximately $8.6 million and in the third quarter of 2010 we received a cash payment of approximately $29.5 million, as the result of a refund of U.S. federal taxes previously paid. Of the 2011 amount, $2.5 million is related to the 2008 amended tax return that was filed as a result of the 2005 to 2007 Internal Revenue Service (IRS) examination related primarily to allowed deductions and taxes on foreign sales associated with our 2005 antitrust settlement with Microsoft Corporation. The remaining $6.1 million in refunds related to net operating loss carrybacks and prior year tax overpayments. We recorded the related income tax benefit and tax receivable for both the 2011 and 2010 refunds in our consolidated financial statements for the year ended December 31, 2010.

As of December 31, 2011 and December 31, 2010, gross unrecognized tax benefits were $16.7 million and $14.0 million, respectively. Of the increase, $3.0 million is due to transfer pricing risk in foreign jurisdictions and $0.5 million is related to other prior year positions, partially offset by a decrease of $0.8 million related to the closure of a foreign subsidiary which had reserves related to transfer pricing and the expiration of the statute of limitations on state tax returns. The total amount of unrecognized tax benefits that would affect our effective tax rate if recognized is $13.5 million as of December 31, 2011, and $11.0 million as of December 31, 2010. We currently anticipate the closure of foreign income tax examinations in the next twelve months that may decrease our total unrecognized tax benefits by an amount up to $12.0 million as a result of the successful defense of our positions, the settlement and payment of a liability, or a combination thereof. Additionally, we anticipate that our total unrecognized tax benefits may increase by an amount up to $2.7 million as a result of a potential transfer pricing change. We estimate the impact of uncertain tax positions in accordance with FASB ASC 740. This guidance prescribes a recognition threshold and measurement process for recording in the consolidated financial statements uncertain tax positions taken or expected to be taken in our tax return.

We file numerous consolidated and separate income tax returns in the United States including federal, state and local, as well as foreign jurisdictions. With few exceptions, we are no longer subject to United States federal income tax examinations for tax years before 2008 or state, local, or foreign income tax examinations for years before 1993. We are currently under audit by various states and foreign jurisdictions for certain tax years subsequent to 1993.

License Fees and Service Revenue

We also present our revenue based on License fees and Service revenue as set forth below (dollars in thousands):

	2011	2010	2009	2011-2010 Change	% Change	2010-2009 Change	% Change
License	$ 69,644	$ 74,908	$100,996	$ (5,264)	(7)%	$ (26,088)	(26)%
Service	266,042	326,825	461,268	(60,783)	(19)%	(134,443)	(29)%
Total Net Revenue	$335,686	$401,733	$562,264	$(66,047)	(16)%	$(160,531)	(29)%

License Fees . License fees primarily include revenue from sales of content such as game licenses, sales of our licenses of our system software products such as Helix for handsets, and sales of premium versions of our RealPlayer and related products. Prior to March 31, 2010, license fees also included the sales from digital music tracks from our Music segment. License fees include revenue from all of our reporting segments.

Service Revenue . Service revenue primarily includes revenue from sales of digital media subscription services such as SuperPass, GamePass and FunPass, sales of SaaS services, distribution of third party software, and advertising. Prior to March 31, 2010, service fees also included sales of the Rhapsody music subscription service from our Music segment. Service revenue includes revenue from all of our reporting segments.

2011 compared with 2010

License revenue declined by $5.3 million, or 7%, due to the deconsolidation of our Music segment that contributed $3.9 million to the overall decrease and a decline in sales of games of $6.2 million. These declines were partially offset by higher unit sales of RealPlayer Plus of $3.9 million, in addition to increased revenue associated with our technology licensing products of $1.1 million, compared with the year-earlier period.

Service revenue declined by $60.8 million, or 19%. The deconsolidation of our Music segment contributed $31.8 million to the overall decrease. The decline was also due to reduced service revenue from our SaaS offerings of approximately $14.2 million due primarily to lower subscribers and pricing, lower sales of our subscription products of $10.0 million and lower revenue from services associated with our technology licensing products of $3.4 million.

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2010 compared with 2009

License revenue declined by $26.1 million, or 26%. The deconsolidation of Rhapsody on March 31, 2010, accounted for $16.4 million of the decline. In addition, Games license sales declined by $9.1 million due to lower unit sales and a decline in average selling prices in response to continued competitive pressures.

Service revenue declined by $134.4 million, or 29%. The deconsolidation of Rhapsody on March 31, 2010, accounted for $107.5 million of the decline. SaaS revenue decreased by $14.6 million due to the merger of certain carrier customers resulting in lower overall contract prices with these customers and the loss of subscribers under management. Revenue from system integration, a business we have been de-emphasizing since 2008, declined by $3.5 million. Also contributing to the overall decline was lower unit distribution of third-party software products of approximately $3.6 million.

Cost of License Fees and Service Revenue

We also present our cost of revenue based on License fees and Service revenue as set forth below (dollars in thousands):

	2011	2010	2009	2011-2010 Change	% Change	2010-2009 Change	% Change
License	$ 17,794	$ 21,451	$ 35,850	$ (3,657)	(17)%	$(14,399)	(40)%
Service	108,843	123,272	186,292	(14,429)	(12)%	(63,020)	(34)%
Total Cost of Revenue	$126,637	$144,723	$222,142	$(18,086)	(13)%	$(77,419)	(35)%

Cost of License Fees . Cost of license fees includes royalties paid on sales of games, amounts paid for licensed technology, amortization of acquired technology, and music royalties for periods prior to March 31, 2010.

Cost of Service Revenue . Cost of service revenue includes the cost of content and delivery of the content included in our digital media subscription and mobile service offerings, cost of in-house and contract personnel providing support, amortization of acquired technology, fees for consulting services, and expenses incurred in providing our SaaS hosting services and cost of content for our Rhapsody service for periods prior to March 31, 2010. Content costs are expensed over the period that the content is available to our subscription services customers.

2011 compared with 2010

Cost of license fees decreased by $3.7 million, or 17%. The decrease was primarily due to the 2010 deconsolidation of our Music segment, which contributed $2.7 million to the decline. Also contributing to this decrease was reduced costs of license sales within our Games division of $1.2 million.

Cost of service revenue decreased by $14.4 million, or 12%. The deconsolidation of our Music segment contributed $19.2 million to the overall decrease. Further contributing to the decrease was a change in estimates of our accrued royalties and the extinguishment of certain accrued royalties in 2011 of $5.5 million primarily associated with our historical music business. These decreases were partially offset by increased costs within our Emerging Products segment to provide our new products and increased costs related to certain advertising agreements of approximately $3.6 million and $2.1 million, respectively.

2010 compared with 2009

Cost of license fees decreased by $14.4 million, or 40%. The decrease was primarily due to the deconsolidation of Rhapsody on March 31, 2010, resulting in a decrease of $11.8 million. In addition, games costs of license fees decreased by $3.5 million, due to lower unit sales and lower average selling prices for our games, resulting in lower royalty rates.

Cost of service revenue decreased by $63.0 million, or 34%. The decline was primarily due to the deconsolidation of Rhapsody on March 31, 2010, which decreased cost of service revenue by $64.7 million.

Geographic Revenue

Revenue by geographic region is as follows (dollars in thousands):

	2011	2010	2009	2011-2010 Change	% Change	2010-2009 Change	% Change
United States	$162,720	$227,823	$374,283	$(65,103)	(29)%	$(146,460)	(39)%
Europe	74,602	79,820	96,146	(5,218)	(7)%	(16,326)	(17)%
Rest of World	98,364	94,090	91,835	4,274	5%	2,255	2%
Total Revenue	$335,686	$401,733	$562,264	$(66,047)	(16)%	$(160,531)	(29)%

2011 compared with 2010

Revenue in the U.S. declined by $65.1 million, or 29%, primarily due to the deconsolidation of Rhapsody on March 31, 2010, which accounted for $33.6 million of the decrease. The decline was also due to reductions in revenue generated from our SaaS offerings of $17.6 million due to lower intercarrier messaging contract prices, lower sales of games subscriptions and licenses of approximately $8.0 million and a decrease in revenue from our SuperPass subscription service of $3.9 million.

Revenue in Europe decreased by $5.2 million, or 7%. The decrease was primarily due to a decline in technology licensing revenue of $2.4 million, as well as declines in sales of individual games as well as games subscriptions, totaling $1.3 million. Foreign currency fluctuations of the U.S. dollar against the euro positively affected 2011 revenue in Europe by approximately $3.5 million.

Revenue in the rest of world increased by $4.3 million, or 5%. This increase was primarily due to increased sales in our SaaS offerings of $2.4 million, increased technology licensing sales of $1.4 million, and increased unit sales of RealPlayer of $1.5 million. Foreign currency fluctuations of the U.S. dollar against the Korean won positively affected 2011 revenue in the rest of the world by approximately $3.1 million.

2010 compared with 2009

Revenue in the U.S. declined by $146.5 million, or 39%, primarily due to the deconsolidation of Rhapsody on March 31, 2010, which accounted for $116.7 million of the decrease. Core Products revenue in the U.S. declined by $19.8 million primarily due to the merger of certain carrier customers resulting in lower overall contract prices with these customers and a loss in total subscribers under management. Core Products revenue also declined in the U.S. due to fewer subscriptions to our SuperPass service resulting in a further decrease in revenue of $4.8 million. Revenue in the U.S. also decreased by $6.0 million due to a decline in sales of individual games. In addition, lower advertising revenue and lower revenue from the distribution of third-party software products contributed another $3.4 million to the overall decrease in revenue in the U.S.

Revenue in Europe decreased by $16.3 million, or 17%. The decrease was due to a decline in technology licensing revenue of $8.3 million, lower unit distribution of third-party software products of $1.6 million, a decline in sales of individual games of $3.4 million and a decline in our international radio subscription revenue of $1.4 million. Foreign currency fluctuations of the U.S. dollar against the euro negatively affected 2010 revenue in Europe by approximately $3.9 million.

Revenue in the rest of world increased by $2.3 million, or 2%. This increase was primarily due to increased revenue from our MOD service in Korea of approximately $5.2 million. This increase was offset by a decrease in systems integration revenue, a business which we have de-emphasized since 2008, of $3.5 million. Foreign currency fluctuations of the U.S. dollar against the Korean won positively affected 2010 revenue in the rest of the world by approximately $4.6 million.

Liquidity and Capital Resources

The following summarizes working capital, cash, cash equivalents, short-term investments, and restricted cash (in thousands):

	December 31,	
	2011	2010
Working capital	$160,787	$286,315
Cash, cash equivalents, and short-term investments	185,072	334,321
Restricted cash	10,168	10,000

The decreases in both working capital and cash, cash equivalents, and short-term investments from December 31, 2010, were primarily due to the special cash dividend of $136.8 million paid in the third quarter of 2011.

The following summarizes cash flow activity (in thousands):

	Years Ended December 31,		
	2011	2010	2009
Cash used in operating activities	$ (708)	$(31,122)	$ (9,304)
Cash (used in) provided by investing activities	6,624	(17,525)	9,821
Cash (used in) provided by financing activities	(133,542)	3,939	39,492

Cash used in operating activities consisted of net income (loss) adjusted for certain non-cash items including depreciation, amortization, stock-based compensation, deferred income taxes, gain on sales of interest in, and deconsolidation of, Rhapsody, asset impairments, accrued restructuring and other charges and the effect of changes in certain operating assets and liabilities, net of acquisitions.

Cash used in operating activities in the year ended December 31, 2011 was $0.7 million and consisted of (1) a net loss of $27.1 million, (2) adjustments to reconcile the net loss to cash used by operating activities of $11.9 million and (3) cash used in activities related to changes in certain operating assets and liabilities, net of acquisitions of $14.5 million. Adjustments to reconcile the net loss to cash used in operating activities primarily consisted of $16.9 million of depreciation and amortization expense, $7.9 million of equity in the net loss of Rhapsody and other equity method investments, and $11.7 million of stock-based compensation.

Changes in certain operating assets and liabilities, net of acquisitions, for the year ended December 31, 2011 primarily consisted of uses of cash from a decrease in accounts payable, and accrued and other liabilities of $14.6 million and $20.9 million, respectively. This decrease in accounts payable was primarily related to the timing of certain payments. These uses of cash were partially offset by decreases in accounts receivable and prepaid and other assets of $6.8 million and $43.2 million, respectively. The decrease in accounts receivable was due primarily to the timing of cash receipts. The decrease in prepaid and other assets was due primarily to the impairment of deferred costs in the fourth quarter.

Cash used in operating activities in the year ended December 31, 2010 was $31.1 million and consisted of net income of $2.1 million, adjustments for cash provided by non-cash items of $45.5 million and cash used in activities related to changes in certain operating assets and liabilities, net of acquisitions and deconsolidation of Rhapsody, of $78.8 million. Adjustments for cash provided by non-cash items primarily consisted of $23.4 million of depreciation and amortization expense, $14.2 million related to the equity in net losses recorded from our equity method investments, $5.7 million of non-cash expenses related to our loss on excess office facilities and $12.2 million of stock-based compensation.

Changes in certain operating assets and liabilities, net of acquisitions, in the year ended December 31, 2010, primarily consisted of uses of cash from the decrease in accrued and other liabilities of $67.0 million. These decreases were related to reductions in accrued royalties and other fulfillment costs, payment of the legal settlement and related legal expenses attributable to the RealDVD litigation, as well as a reduction in amounts payable to MTVN for related party advertising incurred during the quarter ended March 31, 2010 as compared to the quarter ended December 31, 2009.

Cash used in operating activities in the year ended December 31, 2009 was $9.3 million and consisted of a net loss of $243.0 million, adjustments for cash provided by non-cash items of $235.0 million and cash used by activities related to changes in certain operating assets and liabilities, net of acquisitions, of $1.3 million. Adjustments for cash provided by non-cash items primarily consisted of $175.6 million of impairments of goodwill, $31.5 million of depreciation and amortization expense and $21.5 million of stock-based compensation.

Changes in certain operating assets and liabilities, net of acquisitions, in the year ended December 31, 2009, primarily consisted of uses of cash from the decrease in accrued and other liabilities of $8.9 million primarily related to reductions in deferred revenue as well as a reduction in amounts payable to MTVN for related party advertising. A decrease in accounts payable of $4.9 million related to the timing of payments to vendors also contributed to the use of cash in 2009. These uses of cash were partially offset by a decrease in accounts receivable of $10.7 million related to the timing of customer collections.

In the year ended December 31, 2011, cash provided by investing activities of $6.6 million was due primarily from the sales and maturities, net of purchases, of short-term investments of $19.6 million, offset by purchases of equipment, software and leasehold improvements of $9.9 million and the payment of acquisition costs of $2.9 million. In the year ended December 31, 2010, investing activities used cash primarily for payments made in connection with the restructuring of Rhapsody of $18.0 million, purchases of equipment, software, and leasehold improvements of $12.9 million, as well as a $5.8 million payment of acquisition costs for Backstage, net of cash acquired. These uses of cash were partially offset by the repayment of temporary funding upon the deconsolidation of Rhapsody of approximately $5.9 million. Purchases, net of sales and maturities, of short-term investments provided cash of $9.6 million during 2010. In the year ended December 31, 2009, investing activities provided cash primarily from the sales and maturities, net of purchases, of short-term investments of approximately $29.9 million. Uses of cash during 2009 included the purchases of equipment, software and leasehold improvements of $16.8 million and the payment of acquisition costs of $3.3 million primarily related to the payment of anniversary and performance costs relating to the acquisition of Zylom, which were previously accrued.

Financing activities in the year ended December 31, 2011 used cash mainly from the payment of the special dividend to the holders of our common stock of $136.8 million in the third quarter. The payment of the special dividend was based on an analysis of RealNetworks capital structure and the belief that we had excess cash relative to our future operational or strategic needs. Financing activities in the year ended December 31, 2010 provided cash from the proceeds of sales of common stock under employee stock purchase plans and the exercise of stock options of $2.7 million. Financing activities provided cash from the proceeds of sales of interests in Rhapsody of $38.0 million as well as sales of common stock under our employee stock purchase plan and exercise of stock options of $1.5 million in the year ended December 31, 2009.

The declaration and payment of future dividends, as well as the amount thereof, are subject to the discretion of our board of directors and will depend upon our results of operations, financial condition, capital levels, cash requirements, future prospects and other factors deemed relevant by our board of directors. Accordingly, there can be no assurance that we will declare and pay any dividends in the future.

We currently have no planned significant capital expenditures for 2012 other than those in the ordinary course of business. In the future, we may seek to raise additional funds through public or private equity financing, or through other sources such as credit facilities. The sale of additional equity securities could result in dilution to our shareholders. In addition, in the future, we may enter into cash or stock acquisition transactions or other strategic transactions that could reduce cash available to fund our operations or result in dilution to shareholders.

Our principal future cash commitments include office leases and contractual payments due to content and other service providers. We believe that our current cash, cash equivalents, and short-term investments will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months.

On January 26, 2012, we entered into a definitive agreement with Intel Corporation pursuant to which we will sell certain patent assets and related rights held by us and our next generation video codec technology for $120.0 million and the assumption of certain liabilities, subject to potential adjustments. We intend to hold the cash proceeds we will receive in the U.S. In connection with the transaction, we also entered into a license agreement with Intel in which we will obtain a non-exclusive, royalty-free, fully paid up, irrevocable and worldwide license to use the patents assets we will sell to Intel in connection with our businesses. The consummation of these transactions is subject to closing conditions and is expected to close in the first quarter of 2012.

We do not hold derivative financial instruments or equity securities in our short-term investment portfolio. Our cash equivalents and short-term investments consist of high quality securities, as specified in our investment policy guidelines. The policy limits the amount of credit exposure to any one non-U.S. government or non-U.S. agency issue or issuer to a maximum of 5% of the total portfolio. These securities are subject to interest rate risk and will decrease in value if interest rates increase. Because we have historically had the ability to hold our fixed income investments until maturity, we do not expect our operating results or cash flows to be significantly affected by a sudden change in market interest rates on the securities in this portfolio.

We conduct our operations primarily in five functional currencies: the U.S. dollar, the Korean won, the Japanese yen, the British pound and the euro. Historically, neither fluctuations in foreign exchange rates nor changes in foreign economic conditions have had a significant impact on our financial condition or results of operations. However, we currently do not hedge the majority of our foreign currency exposures and are therefore subject to risk from exchange rate fluctuations. We invoice our international customers primarily in U.S. dollars, except in Korea, Japan, Germany, France, the United Kingdom and Australia, where we invoice our customers primarily in the respective local currencies. We are exposed to foreign exchange rate fluctuations as the financial results of foreign subsidiaries are translated into U.S. dollars in consolidation. Our exposure to foreign exchange rate fluctuations also arises from intercompany payables and receivables to and from our foreign subsidiaries.

As of December 31, 2011, approximately $48.8 million of the $185.1 million of cash, cash equivalents, and short-term investments was held by our foreign subsidiaries. We have reviewed each of our foreign subsidiaries and as of December 31, 2011 have repatriated approximately $11.4 million of the cash held by our foreign subsidiaries. The Company believes repatriation of these earnings will result in additional taxes of approximately $1.0 million and has provided for that amount in the Company's consolidated financial statements for the year ended December 31, 2011. We currently have significant net operating losses and other tax attributes that will be used to offset the $1.0 million of additional taxes, and as a result, the repatriation did not have a material impact on our tax expense for the year ended December 31, 2011 as we are utilizing net operating losses, which had a full valuation allowance.

As of December 31, 2011, we have not provided for U.S. federal and state income taxes on approximately $12.8 million of undistributed earnings of our foreign subsidiaries, since such earnings are considered indefinitely reinvested outside the U.S. If these amounts were distributed to the U.S, in the future in the form of dividends or otherwise, we could be subject to additional U.S. income taxes. It is not practicable to determine the U.S. federal income tax liability or benefit on such earnings due to the timing of such future distributions, the availability of foreign tax credits, and the complexity of the computation if such earnings were not deemed to be permanently reinvested. If future events, including material changes in estimates of cash, working capital, and long-term investment requirements necessitate that these earnings be repatriated, an additional provision for U.S. income and foreign withholding taxes, net of foreign tax credits, may be necessary.

At December 31, 2011, we had commitments to make the following payments:

Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
			(In thousands)		
Office leases	$33,721	$10,358	$18,768	$3,628	$ 967
Other contractual obligations	176	88	88	—	—
Total contractual cash obligations	$33,897	$10,446	$18,856	$3,628	$ 967

Other contractual obligations primarily relate to minimum contractual payments due to content and other service providers.

In addition to the amounts shown in the table above, $17.5 million of unrecognized tax benefits have been recorded as liabilities in accordance with FASB ASC 740 (previously FIN No. 48, *Accounting for Uncertainty in Income Taxes*), and we are uncertain as to if or when such amounts may be settled. We cannot make a reasonably reliable estimate of the amount and period of related future payments for such liability.

Off Balance Sheet Arrangements

Our only significant off-balance sheet arrangements relate to operating lease obligations for office facility leases and other contractual obligations related primarily to minimum contractual payments due to content and other service providers. Future annual minimum rental lease payments and other contractual obligations are included in the commitment schedule above.

Critical Accounting Policies and Estimates

The preparation of our financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Our critical accounting policies and estimates are as follows:

- Revenue recognition;
- Estimating music publishing rights and music royalties;
- Estimating recoverability of deferred costs;
- Estimating allowances for doubtful accounts and sales returns;
- Estimating losses on excess office facilities;
- Valuation of equity method investments;
- Valuation of available for sale securities;
- Valuation of long-lived assets;
- Valuation of goodwill;
- Stock-based compensation;

- Accounting for gains on sale of subsidiary stock; and
- Accounting for income taxes.

Revenue Recognition. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is probable. Physical products are considered delivered to the customer once they have been shipped and title and risk of loss have been transferred. For online sales, the products or services are considered delivered at the time the product or services are made available, digitally, to the end user.

We recognize revenue on a gross or net basis. In most arrangements, we contract directly with end user customers, are the primary obligor and carry all collectability risk. In such arrangements, we recognize revenue on a gross basis. In some cases, we utilize third-party distributors to sell products or services directly to end user customers and carry no collectability risk. In such instances, we recognize revenue on a net basis.

In our direct to consumer business segments, we derive revenue through (1) subscriptions of SuperPass within our Core Products segment and subscriptions sold by our Games segment, (2) sales of content downloads, software and licenses offered by our Core Products, Emerging Products and Games segments and (3) the sale of advertising and the distribution of third-party products on our websites and in our games. Prior to April 1, 2010, our direct to consumer business also included the products and services offered by our Music segment, which was primarily sold by the Rhapsody joint venture and included in our Music segment. Beginning on April 1, 2010, revenue from the Rhapsody joint venture is no longer consolidated within our financial statements. We now report our share of Rhapsody's net income or losses as "Equity in net loss of Rhapsody and other equity method investments."

Consumer subscription products are paid in advance, typically for monthly, quarterly or annual duration. Subscription revenue is recognized ratably over the related subscription time period. Revenue from sales of content downloads, software and licenses is recognized at the time the product is made available, digitally, to the end user. Revenue generated from advertising on our websites and from advertising and the distribution of third-party products included in our products is recognized as revenue at the time of delivery.

We also generate revenue through business-to-business channels by providing services within our Core Products segment enabling mobile carriers to deliver audio and video content to their customers and by selling software licenses and products and related support and other services. Revenue generated from services provided to mobile carriers that enable the delivery of audio and video content to their customers is recognized as the services are provided. Setup fees to build these services are recognized ratably upon launch of the service over the remaining expected term of the service.

Non-software revenue arrangements with multiple deliverables are divided into separate units and revenue is allocated using estimated selling prices if the Company does not have vendor-specific objective evidence or third-party evidence of the selling prices of the deliverables. A portion of the revenue related to the sale of software licenses and products and related support and other services is recorded as unearned due to undelivered elements including, in some cases, post-delivery support and the right to receive unspecified upgrades or enhancements on a when-and-if-available basis. Unearned revenue due to undelivered elements is recognized ratably on a straight-line basis over the related products' contract term.

Estimating Music Publishing Rights and Music Royalty Accruals. We must make estimates of amounts owed related to our music publishing rights and music royalties for our domestic and international music services primarily incurred by Rhapsody which was separated from our operating results beginning April 1, 2010. Unsettled obligations incurred prior to April 1, 2010 remain our liability. Material differences may impact the amount and timing of our expense for any period if management made different judgments or utilized different estimates. Under copyright law, we may be required to pay licensing fees for digital sound recordings and compositions we deliver. Copyright law generally does not specify the rate and terms of the licenses, which are determined by voluntary negotiations among the parties or, for certain compulsory licenses where voluntary negotiations are unsuccessful, by arbitration. There are certain geographies and agencies for which we have not yet completed negotiations with regard to the royalty rate to be applied to the current or historic sales of our digital music offerings. Our estimates are based on contracted or statutory rates, when established, or management's best estimates based on facts and circumstances regarding the specific music services and agreements in similar geographies or with similar agencies. While we base our estimates on historical experience and on various other assumptions that management believes to be reasonable under the circumstances, actual results may differ materially from these estimates under different assumptions or conditions.

Estimating Recoverability of Deferred Costs. We defer costs on projects for service revenue and system sales. Deferred costs consist primarily of direct and incremental costs to customize and install systems, as defined in individual customer contracts, including costs to acquire hardware and software from third parties and payroll costs for our employees and other third parties.

We recognize such costs as a component of cost of revenue, the timing of which is dependent upon the revenue recognition policy by contract. For revenue recognized under the completed contract method, costs are deferred until the products are delivered, or upon completion of services or, where applicable, customer acceptance. For revenue recognized under the percentage of completion method, costs are recognized as products are delivered or services are provided in accordance with the percentage of completion calculation. For revenue recognized ratably over the term of the contract, costs are recognized ratably over the term of the contract, commencing on the date of revenue recognition. At each balance sheet date, we review deferred costs to ensure they are ultimately recoverable. Any anticipated losses on uncompleted contracts are recognized when evidence indicates the estimated total cost of a contract exceeds its estimated total revenue.

Assessing the recoverability of deferred project costs is based on significant assumptions and estimates, including future revenue and cost of sales. Significant or sustained decreases in revenue or increases in cost of sales in future periods could result in additional impairments of deferred project costs. We cannot accurately predict the amount and timing of such impairments. Should the value of deferred project costs become impaired, we would record the appropriate charge, which could have a material adverse effect on our financial condition or results of operations.

Estimating Allowances for Doubtful Accounts and Sales Returns. We make estimates of the uncollectible portion of our accounts receivable. We specifically analyze the age of accounts receivable and historical bad debts, customer credit-worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. Similarly, we make estimates of potential future product returns related to current period revenue. We analyze historical returns, current economic trends, and changes in customer demand and acceptance of our products when evaluating the adequacy of the sales returns allowance. Significant judgments and estimates are made and used in connection with establishing allowances for doubtful accounts and sales returns in any accounting period. Material differences may result in the amount and timing of our revenue for any period if we were to make different judgments or utilize different estimates or actual future experience was different from the judgments and estimates.

Estimating Losses on Excess Office Facilities. We made significant estimates in determining the appropriate amount of accrued loss on excess office facilities. If we made different estimates, our loss on excess office facilities could be significantly different from that recorded, which could have a material impact on our operating results.

Valuation of Equity Method Investments. We use the equity method in circumstances where we have the ability to exert significant influence, but not control, over an investee or joint venture. We initially record our investment based on a fair value analysis of the investment. Prior to 2010, most of our equity method investments were purchased with cash which was determined to be fair value. For the investment in Rhapsody as of March 31, 2010, we used multiple valuation models that were based on assumptions of future results, including operating and cash flow projections, to calculate the fair value since we contributed both cash and non-cash items in exchange for our interest. These models were based upon estimates and assumptions relating to future revenue, cash flows, operating expenses, costs of capital and capital purchases. These estimates and assumptions are complex and subject to a significant degree of judgment with respect to certain factors including, but not limited to, the cash flows of long-term operating plans, market and interest rate risk, and risk-commensurate discount rates and cost of capital.

We record our percentage interest in the investee or joint venture's income or loss under this method, which will increase or decrease the value of the investment. We record investee losses up to the aggregate amount of the investment.

We evaluate impairment of an investment valued under the equity method only if events and circumstances warrant. An impairment charge would be recorded whenever a decline in value of an equity investment below its carrying amount is determined to be other than temporary. In determining if a decline is other than temporary, we consider factors such as the length of time and extent to which the fair value of the investment has been less than the carrying amount of the investee or joint venture, the near-term and longer-term operating and financial prospects of the investee or joint venture and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery.

Valuation of Available for Sale Securities . Our investments in publicly traded companies are accounted for as available-for-sale and are carried at current market value. We periodically evaluate whether any declines in fair value of our available for sale securities are other-than-temporary based on a review of qualitative and quantitative factors. For investments with publicly quoted market prices, these factors include the time period and extent by which its accounting basis exceeds its quoted market price. We consider additional factors to determine whether declines in fair value are other-than-temporary, such as the investee's financial condition, results of operations, and operating trends. The evaluation also considers publicly available information regarding the investee companies.

Valuation of Long-Lived Assets. Long-lived assets consist primarily of property, plant and equipment, as well as amortizable intangible assets acquired in business combinations. Long-lived assets are amortized on a straight line basis over their estimated useful lives. We review long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Recoverability of these assets is measured by comparison of their carrying amount to future undiscounted cash flows the assets are expected to generate. If long-lived assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the assets exceeds their fair market value. The impairment analysis of long-lived assets is based upon estimates and assumptions relating to our future revenue, cash flows, operating expenses, costs of capital and capital purchases. These estimates and assumptions are complex and subject to a significant degree of judgment with respect to certain factors including, but not limited to, the cash flows of our long-term operating plans, market and interest rate risk, and risk-commensurate discount rates and cost of capital. Significant or sustained declines in future revenue or cash flows, or adverse changes in our business climate, among other factors, and their resulting impact on the estimates and assumptions relating to the value of our long-lived assets could result in the need to perform an impairment analysis in future interim periods which could result in a significant impairment. While we believe our estimates and assumptions are reasonable, due to their complexity and subjectivity, these estimates and assumptions could vary period to period.

Valuation of Goodwill. We assess the impairment of goodwill on an annual basis, in our fourth quarter, or whenever events or changes in circumstances indicate that the fair value of the reporting unit to which goodwill relates is less than the carrying value. We consider a synthesis of the following important factors that could trigger an impairment review include the following:

- poor economic performance relative to historical or projected future operating results;
- significant negative industry, economic or company specific trends;

- market and interest rate risk;
- changes in the manner of our use of the assets or the plans for our business; and
- loss of key personnel.

In addition, we perform a reconciliation of our market capitalization plus a reasonable control premium to the aggregated implied fair value of all of our reporting units.

If we were to determine that the fair value of a reporting unit was less than its carrying value, including goodwill, based upon the annual test or the existence of one or more of the above indicators of impairment, we would measure impairment based on a comparison of the implied fair value of reporting unit goodwill with the carrying amount of goodwill. The implied fair value of goodwill is determined by allocating the fair value of a reporting unit to its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the goodwill of the reporting unit. To the extent the carrying amount of reporting unit goodwill is greater than the implied fair value of reporting unit goodwill, we would record an impairment charge for the difference. Judgment is required in determining our reporting units and assessing fair value of the reporting units.

The impairment analysis of goodwill is based upon estimates and assumptions relating to our future revenue, cash flows, operating expenses, costs of capital and capital purchases. These estimates and assumptions are complex and subject to a significant degree of judgment with respect to certain factors including, but not limited to, the cash flows of our long-term operating plans, market and interest rate risk, and risk-commensurate discount rates and cost of capital.

Stock-Based Compensation. Stock-based compensation cost is estimated at the grant date based on the award's fair-value as calculated by the Black-Scholes option-pricing model or other appropriate valuation models and is recognized as expense over the requisite service period, which is the vesting period. The valuation models require various highly judgmental assumptions including volatility in our common stock price and expected option life. If any of the assumptions used in the valuation models change significantly, stock-based compensation expense may differ materially in the future from the amounts recorded in our consolidated statement of operations. We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest.

Accounting for Gains on Sale of Subsidiary Stock. Effective January 1, 2009, we adopted Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment to ARB No. 51 (* SFAS 160) which was primarily codified into FASB ASC 810 — *Consolidation* (ASC 810). Current guidance requires the difference between the carrying amount of the parent's investment in a subsidiary and the underlying net book value of the subsidiary after the issuance of stock by the subsidiary to be recorded as equity transactions. We elected to recognize any such gain in our consolidated statement of operations prior to January 1, 2009 as was allowable under generally accepted accounting principles in place at that time if certain recognition criteria were met. Due to the completion of the restructuring of Rhapsody on March 31, 2010, which resulted in our holding approximately 47% of the outstanding shares of capital stock of Rhapsody, this accounting policy will no longer apply with respect to our investment as we no longer consolidate Rhapsody and no longer report a noncontrolling interest.

Accounting for Income Taxes. We use the asset and liability method of accounting for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year. In addition, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities and operating loss and tax credit carryforwards are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and operating loss and tax credit carryforwards are expected to be recovered or settled. We must make assumptions, judgments and estimates to determine current provision for income taxes, deferred tax assets and liabilities and any valuation allowance to be recorded against deferred tax assets. Our judgments, assumptions, and estimates relative to the current provision for income tax take into account current tax laws, our interpretation of current tax laws and possible outcomes of future audits conducted by foreign and domestic tax authorities. Changes in tax law or our interpretation of tax laws and future tax audits could significantly impact the amounts provided for income taxes in our consolidated financial statements.

Each reporting period we must periodically assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent that recovery is not more likely than not, a valuation allowance must be established. The establishment of a valuation allowance and increases to such an allowance result in either increases to income tax expense or reduction of income tax benefit in the statement of operations and comprehensive income. Factors we consider in making such an assessment include, but are not limited to, past performance and our expectation of future taxable income, macroeconomic conditions and issues facing our industry, existing contracts, our ability to project future results and any appreciation of our investments and other assets.

Historically, we have not provided for U.S. deferred income taxes or withholding taxes on certain foreign subsidiaries' undistributed earnings. These earnings had been intended to be permanently reinvested in operations outside of the U.S. As a result of the decision to pay the special cash dividend and to effect the reverse stock split in August 2011, we repatriated some of our foreign subsidiaries' undistributed earnings in the fourth quarter of 2011. This repatriation was a one-time change in our assertion on foreign subsidiaries' undistributed earnings, as we otherwise intend to reinvest future earnings outside of the U.S. indefinitely.

As of December 31, 2011, approximately $48.8 million of the $185.1 million of cash, cash equivalents, and short-term investments was held by our foreign subsidiaries. The Company has reviewed each of its foreign subsidiaries and as of December 31, 2011 has repatriated approximately $11.4 million of the cash held by our foreign subsidiaries. The Company believes repatriation of these earnings will result in additional taxes of approximately $1.0 million and have provided for that amount in the Company's consolidated financial statements for the year ended December 31, 2011. We currently have significant net operating losses and other tax attributes that will be used to offset the $1.0 million of additional taxes, and as a result, the repatriation did not have a material impact on our tax expense for the year ended December 31, 2011, as we are utilizing net operating losses, which had a full valuation allowance.

As of December 31, 2011, we have not provided for U.S. federal and state income taxes on approximately $12.8 million of undistributed earnings of our foreign subsidiaries, since such earnings are considered indefinitely reinvested outside the U.S. If these amounts were distributed to the U.S., in the form of dividends or otherwise, the Company could be subject to additional U.S. income taxes. It is not practicable to determine the U.S. federal income tax liability or benefit on such earnings due to the timing of such future distributions, the availability of foreign tax credits, and the complexity of the computation if such earnings were not deemed to be permanently reinvested. If future events, including material changes in estimates of cash, working capital, and long-term investment requirements necessitate that these earnings be distributed, an additional provision for U.S. income and foreign withholding taxes, net of foreign tax credits, may be necessary.

Recently Issued Accounting Standards

With the exception of those discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the year ended December 31, 2011, as compared to the recent accounting pronouncements described in our Annual Report on Form 10-K for the year ended December 31, 2010, that are of significance, or potential significance to us.

In September 2009, the FASB ratified Accounting Standards Update (ASU) 2009-13 (ASU 2009-13) (previously Emerging Issues Task Force (EITF) Issue No. 08-1, *Revenue Arrangements with Multiple Deliverables* (EITF 08-1)). ASU 2009-13 supersedes EITF 00-21 and addresses criteria for separating the consideration in multiple-element arrangements. ASU 2009-13 requires companies to allocate the overall consideration to each deliverable by using a best estimate of the selling price of individual deliverables in the arrangement in the absence of vendor-specific objective evidence or other third-party evidence of the selling price.

In September 2009, the FASB ratified ASU 2009-14 (ASU 2009-14) (previously EITF No. 09-3, *Certain Revenue Arrangements That Include Software Elements)* . ASU 2009-14 modifies the scope of Software Revenue Recognition to exclude (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality.

The Company elected to adopt ASU 2009-13 and ASU 2009-14 at the beginning of the first quarter of 2011 on a prospective basis. The Company did not have a significant change in units of accounting, allocation methodology, or timing of revenue recognition. As a result, the adoption of these accounting standards did not have a material impact on the Company's consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, *Intangibles — Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, which permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. ASU 2011-08 will be effective for fiscal years beginning after December 15, 2011. The Company does not expect the adoption of ASU 2011-08 to have a material effect on its consolidated financial statements.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

The following discussion about our market risk involves forward-looking statements. All statements that do not relate to matters of historical fact should be considered forward-looking statements. Actual results could differ materially from those projected in any forward-looking statements.

Interest Rate Risk. Our exposure to interest rate risk from changes in market interest rates relates primarily to our short-term investment portfolio. We do not hold derivative financial instruments or equity investments in our short-term investment portfolio. Our short-term investments consist of high quality debt securities as specified in our investment policy. Investments in both fixed and floating rate instruments carry a degree of interest rate risk. The fair value of fixed rate securities may be adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Additionally, a declining rate environment creates reinvestment risk because as securities mature the proceeds are reinvested at a lower rate, generating less interest income. See Note 5 "Cash and Cash Equivalents, Short-Term Investments, and Restricted Cash Equivalents and Investments" for additional information. Due in part to these factors, our future interest income may be adversely impacted due to changes in interest rates. In addition, we may incur losses in principal if we are forced to sell securities that have declined in market value due to changes in interest rates. Because we have historically had the ability to hold our short-term investments until maturity, we would not expect our operating results or cash flows to be significantly impacted by a sudden change in market interest rates. There have been no material changes in our investment methodology regarding our cash equivalents and short-term investments during the year ended December 31, 2011. Based on our cash, cash equivalents, short-term investments, and restricted cash equivalents at December 31, 2011, a hypothetical 10% increase/decrease in interest rates would not increase/decrease our annual interest income or cash flows by more than a nominal amount.

Investment Risk. As of December 31, 2011, we had investments in voting capital stock of both publicly traded and privately-held technology companies for business and strategic purposes. Our investments in publicly traded companies are accounted for as available-for-sale, carried at current market value and are classified as long-term as they are strategic in nature. We periodically evaluate whether any declines in fair value of our investments are other-than-temporary based on a review of qualitative and quantitative factors. For investments with publicly quoted market prices, these factors include the time period and extent by which its accounting basis exceeds its quoted market price. We consider additional factors to determine whether declines in fair value are other-than-temporary, such as the investee's financial condition, results of operations, and operating trends. The evaluation also considers publicly available information regarding the investee companies. For investments in private companies with no quoted market price, we consider similar qualitative and quantitative factors as well as the implied value from any recent rounds of financing completed by the investee. Based upon an evaluation of the facts and circumstances during the years ended December 31, 2011, we determined that no additional other-than-temporary decline in fair value had occurred and therefore no impairment charges were recorded in 2011.

Foreign Currency Risk. We conduct business internationally in several currencies. As such, we are exposed to adverse movements in foreign currency exchange rates.

Our exposure to foreign exchange rate fluctuations arise in part from: (1) translation of the financial results of foreign subsidiaries into U.S. dollars in consolidation; (2) the remeasurement of non-functional currency assets, liabilities and intercompany balances into U.S. dollars for financial reporting purposes; and (3) non-U.S. dollar denominated sales to foreign customers. A portion of these risks is managed through the use of financial derivatives, but fluctuations could impact our results of operations and financial position.

Generally, our practice is to manage foreign currency risk for the majority of material short-term intercompany balances through the use of foreign currency forward contracts. These contracts require us to exchange currencies at rates agreed upon at the contract's inception. Because the impact of movements in currency exchange rates on forward contracts offsets the related impact on the short-term intercompany balances, these financial instruments help alleviate the risk that might otherwise result from certain changes in currency exchange rates. We do not designate our foreign exchange forward contracts related to short-term intercompany accounts as hedges and, accordingly, we adjust these instruments to fair value through results of operations. However, we may periodically hedge a portion of our foreign exchange exposures associated with material firmly committed transactions, long-term investments, highly predictable anticipated exposures and net investments in foreign subsidiaries. Some of our unhedged exposures are reconciled through our statement of operations on a mark-to-market basis each quarter, so to the extent we continue to experience adverse economic conditions, we may record losses related to such unhedged exposures in future periods that may have a material adverse effect on our financial condition and results of operations.

Our foreign currency risk management program reduces, but does not entirely eliminate, the impact of currency exchange rate movements.

We have cash balances denominated in foreign currencies which are subject to foreign currency fluctuation risk. The majority of our foreign currency denominated cash is held in Korean won and euros. A hypothetical 10% increase or decrease in the Korean won and euro relative to the U.S. dollar at December 31, 2011 would not result in more than a nominal amount of unrealized gain or loss.

Foreign currency transaction gains and losses were not material for the years ended December 31, 2011, 2010, and 2009.

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Item 8. *Financial Statements and Supplementary Data*

REALNETWORKS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2011	December 31, 2010
	(In thousands, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 106,333	$ 236,018
Short-term investments	78,739	98,303
Trade accounts receivable, net of allowances for doubtful accounts and sales returns of $2,113 in 2011 and $2,568 in 2010	41,165	48,324
Deferred costs, current portion	1,424	9,173
Related party receivable — Rhapsody	0	351
Prepaid expenses and other current assets	21,902	30,441
Total current assets	249,563	422,610
Equipment, software, and leasehold improvements, at cost:		
Equipment and software	104,352	144,623
Leasehold improvements	25,947	25,367
Total equipment, software, and leasehold improvements, at cost	130,299	169,990
Less accumulated depreciation and amortization	92,825	126,619
Net equipment, software, and leasehold improvements	37,474	43,371
Restricted cash equivalents and investments	10,168	10,000
Equity method investments	7,798	15,486
Available for sale securities	37,204	27,541
Other assets	2,954	3,316
Deferred costs, non-current portion	843	18,401
Deferred tax assets, net, non-current portion	18,419	12,805
Other intangible assets, net of accumulated amortization of $62,462 in 2011 and $59,879 in 2010	7,169	6,952
Goodwill	6,198	4,960
Total assets	$ 377,790	$ 565,442
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 17,151	$ 30,413
Accrued and other liabilities	59,194	85,702
Deferred revenue, current portion	11,835	19,036
Accrued loss on excess office facilities, current portion	596	1,144
Total current liabilities	88,776	136,295
Deferred revenue, non-current portion	195	460
Accrued loss on excess office facilities, non-current portion	2,151	3,380
Deferred rent	2,944	3,514
Deferred tax liabilities, net, non-current portion	1,443	1,049
Other long-term liabilities	10,994	7,999
Total liabilities	106,503	152,697
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $0.001 par value, no shares issued and outstanding		
Series A: authorized 200 shares	0	0
Undesignated series: authorized 59,800 shares	0	0
Common stock, $0.001 par value authorized 250,000 shares; issued and outstanding 34,422 shares in 2011 and 34,021 shares in 2010	34	34
Additional paid-in capital	575,515	697,532
Accumulated other comprehensive loss	(24,884)	(32,543)
Retained deficit	(279,378)	(252,278)
Total shareholders' equity	271,287	412,745
Total liabilities and shareholders' equity	$ 377,790	$ 565,442

See accompanying notes to consolidated financial statements.

REALNETWORKS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31,		
	2011	2010	2009
	(In thousands, except per share data)		
Net revenue(A)	$335,686	$401,733	$ 562,264
Cost of revenue(B)	126,637	144,723	222,142
Impairment of deferred costs	19,962	0	0
Gross profit	189,087	257,010	340,122
Operating expenses:			
Research and development	70,212	100,955	119,448
Sales and marketing	111,300	118,543	165,856
Advertising with related party	0	1,065	33,292
General and administrative	37,181	51,217	79,164
Impairment of goodwill	0	0	175,583
Restructuring and other charges	8,650	12,361	4,017
Loss (gain) on excess office facilities	(646)	7,396	0
Total operating expenses	226,697	291,537	577,360
Operating loss	(37,610)	(34,527)	(237,238)
Other income (expenses), net:			
Interest income, net	1,552	2,417	3,969
Gain (loss) on sale of equity investments	0	(9)	688
Equity in net loss of Rhapsody and other equity method investments	(7,898)	(14,164)	(1,313)
Impairment of equity investments	0	0	(5,020)
Gain on deconsolidation of Rhapsody	0	10,929	0
Other income (expense)	(473)	1,031	(794)
Other income (expense), net	(6,819)	204	(2,470)
Loss before income taxes	(44,429)	(34,323)	(239,708)
Income taxes benefit (expense)	17,329	36,451	(3,321)
Net income (loss)	(27,100)	2,128	(243,029)
Net loss attributable to noncontrolling interest in Rhapsody prior to deconsolidation	0	2,910	26,265
Net income (loss) attributable to common shareholders	$(27,100)	$ 5,038	$(216,764)
Basic net income (loss) per share available to common shareholders	$ (0.79)	$ 0.26	$ (6.55)
Diluted net income (loss) per share available to common shareholders	$ (0.79)	$ 0.26	$ (6.55)
Shares used to compute basic net income (loss) per share available to common shareholders	34,185	33,894	33,653
Shares used to compute diluted net income (loss) per share available to common shareholders	34,185	34,013	33,653
Comprehensive income (loss):			
Net income (loss)	$(27,100)	$ 2,128	$(243,029)
Unrealized gains (losses):			
Unrealized investment holding gains (losses), net of tax	9,459	7,676	6,667
Foreign currency translation gains (losses)	(1,800)	(1,605)	3,448
Comprehensive income (loss)	$(19,441)	$ 8,199	$(232,914)
(A) Components of net revenue:			
License fees	$ 69,644	$ 74,908	$ 100,996
Service revenue	266,042	326,825	461,268
	$335,686	$401,733	$ 562,264
(B) Components of cost of revenue:			
License fees	$ 17,794	$ 21,451	$ 35,850
Service revenue	108,843	123,272	186,292
	$126,637	$144,723	$ 222,142

See accompanying notes to consolidated financial statements.

REALNETWORKS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2011	2010	2009
		(In thousands)	
Cash flows from operating activities:			
Net income (loss)	$ (27,100)	$ 2,128	$(243,029)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	16,895	23,401	31,454
Stock-based compensation	11,747	12,203	21,460
Deferred income tax expense (benefit)	(23,985)	622	4,255
Impairment of equity investments	0	0	5,020
Loss (gain) on disposal of equipment, software, and leasehold improvements	(62)	(41)	502
Excess tax benefit from stock option exercises	(74)	(48)	(15)
Accrued loss (gain) on excess office facilities	(646)	5,670	(3,982)
Loss (gain) on sale of equity investments	0	9	(688)
Equity in net loss of Rhapsody and other investments	7,898	14,164	1,313
Gain on deconsolidation of Rhapsody	0	(10,929)	0
Impairment of goodwill	0	0	175,583
Other	114	451	48
Changes in certain assets and liabilities, net of acquisitions and deconsolidation of Rhapsody:			
Trade accounts receivable	6,835	4,856	10,720
Prepaid expenses and other assets	43,169	(15,425)	1,789
Accounts payable	(14,601)	(1,202)	(4,879)
Accrued and other liabilities	(20,898)	(66,981)	(8,855)
Net cash used in operating activities	(708)	(31,122)	(9,304)
Cash flows from investing activities:			
Purchases of equipment, software, and leasehold improvements	(9,873)	(12,904)	(16,807)
Purchases of short-term investments	(96,841)	(116,831)	(143,273)
Proceeds from sales and maturities of short-term investments	116,405	126,398	173,169
Change in restricted cash equivalents and investments, net	(179)	3,700	1,042
Proceeds from sale of equity investments	0	0	1,014
Purchases of equity investments	0	0	(2,000)
Sale of Exomi, net of cash received	0	49	0
Payment in connection with the restructuring of Rhapsody	0	(18,000)	0
Repayment of temporary funding on deconsolidation of Rhapsody	0	5,869	0
Cash used in acquisitions, net of cash acquired	(2,888)	(5,806)	(3,324)
Net cash (used in) provided by investing activities	6,624	(17,525)	9,821
Cash flows from financing activities:			
Net proceeds from sales of common stock under employee stock purchase plan and exercise of stock options	3,177	2,678	1,455
Net proceeds from sales of interest in Rhapsody	0	1,213	38,022
Excess tax benefit from stock option exercises	74	48	15
Common Stock cash dividend paid	(136,793)	0	0
Net cash provided by (used in) financing activities	(133,542)	3,939	39,492
Effect of exchange rate changes on cash and cash equivalents	(2,059)	3,696	4,053
Net (decrease) increase in cash and cash equivalents	(129,685)	(41,012)	44,062
Cash and cash equivalents, beginning of year	236,018	277,030	232,968
Cash and cash equivalents, end of year	$ 106,333	$ 236,018	$ 277,030
Supplemental disclosure of cash flow information:			
Cash received from income tax refunds	$ 10,166	$ 29,800	$ 7,888
Cash paid for income taxes	$ 6,284	$ 4,905	$ 5,697

See accompanying notes to consolidated financial statements.

REALNETWORKS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND NONCONTROLLING INTEREST

(In thousands)

	Redeemable Noncontrolling Interest in Rhapsody America	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Sale of Noncontrolling Interest in Rhapsody America	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Shareholders' Equity
Balances, December 31, 2008	$ 378	33,589	$ 34	$ 635,424	$ 7,381	$ (48,729)	$ (40,552)	$ 553,558
Common stock issued for exercise of stock options, employee stock purchase plan, and vesting of restricted shares	0	171	0	1,167	0	0	0	1,167
Shares issued for director payments	0	4	0	48	0	0	0	48
Stock-based compensation	0	0	0	21,460	0	0	0	21,460
Unrealized gain on investments, net of income tax	0	0	0	0	0	6,667	0	6,667
Translation adjustment	0	0	0	0	0	3,448	0	3,448
Sale of non-controlling interest in Rhapsody	0	0	0	0	16,663	0	0	16,663
Accretion of Rhapsody redemption value	10,436	0	0	(10,436)	0	0	0	(10,436)
Contributions and other transactions with owners	22,704	0	0	0	0	0	0	0
Net loss	(26,265)	0	0	0	0	0	(216,764)	(216,764)
Balances, December 31, 2009	$ 7,253	33,764	$ 34	$ 647,663	$ 24,044	$ (38,614)	$(257,316)	$ 375,811
Common stock issued for exercise of stock options, employee stock purchase plan, and vesting of restricted shares	0	252	0	2,518	0	0	0	2,518
Shares issued for director payments	0	5	0	49	0	0	0	49
Stock-based compensation	0	0	0	12,203	0	0	0	12,203
Unrealized gain on investments, net of income tax	0	0	0	0	0	7,676	0	7,676
Translation adjustment	0	0	0	0	0	(1,605)	0	(1,605)
Termination of MTVN redemption and preferred return rights in Rhapsody	(10,436)	0	0	10,436	0	0	0	10,436
Contributions and other transactions with owners	616	0	0	0	619	0	0	619
Deconsolidation of Rhapsody	5,477	0	0	24,663	(24,663)	0	0	0
Net income (loss)	(2,910)	0	0	0	0	0	5,038	5,038
Balances, December 31, 2010	$ 0	34,021	$ 34	$ 697,532	$ 0	$ (32,543)	$(252,278)	$ 412,745
Common stock issued for exercise of stock options, employee stock purchase plan, and vesting of restricted shares	0	358	0	2,996	0	0	0	2,996
Shares issued for director payments	0	43	0	33	0	0	0	33
Common Stock cash dividend paid	0	0	0	(136,793)	0	0	0	(136,793)
Stock-based compensation	0	0	0	11,747	0	0	0	11,747
Unrealized gain on investments, net of income tax	0	0	0	0	0	9,459	0	9,459
Translation adjustment	0	0	0	0	0	(1,800)	0	(1,800)
Net income (loss)	0	0	0	0	0	0	(27,100)	(27,100)
Balances, December 31, 2011	$ 0	34,422	$ 34	$ 575,515	$ 0	$ (24,884)	$(279,378)	$ 271,287

See accompanying notes to consolidated financial statements.

REALNETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2011, 2010 and 2009

Note 1. Description of Business and Summary of Significant Accounting Policies

Description of Business. RealNetworks, Inc. and subsidiaries (RealNetworks or Company) is a leading global provider of network-delivered digital media products and services that make it easy to manage, play and share digital media. The Company also develops and markets software products and services that enable the creation, distribution and consumption of digital media, including audio and video.

Inherent in the Company's business are various risks and uncertainties, including a limited history of certain of its product and service offerings. The Company's success will depend on the acceptance of the Company's technology, products and services and the ability to generate related revenue.

Basis of Presentation. The consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

On July 27, 2011, the Company's Board of Directors approved the payment of a special cash dividend of $1.00 per common share and a one-for-four reverse stock split of the Company's common stock. The special dividend was paid on August 23, 2011, to holders of record as of the close of business on August 9, 2011. The aggregate amount of the special cash dividend was $136.8 million. The one-for-four reverse stock split of the Company's common stock was effective at the close of business on August 30, 2011. Four shares of issued and outstanding common stock were automatically combined into one issued and outstanding share of common stock without any change in the par value per share as part of the reverse stock split. All information related to common stock, stock options, restricted stock units and earnings per share included in the accompanying consolidated financial statements has been retroactively adjusted to give effect to the special cash dividend and the reverse stock split, except as otherwise noted.

In 2007, RealNetworks and MTV Networks, a division of Viacom International Inc. (MTVN), created Rhapsody America LLC (Rhapsody) to jointly own and operate a business-to-consumer digital audio music service. RealNetworks held a 51% interest in Rhapsody and Rhapsody's financial position and operating results were consolidated into RealNetworks' financial statements prior to March 31, 2010. MTVN's proportionate share of income (loss) was included in noncontrolling interest in Rhapsody in the consolidated statements of operations and comprehensive income (loss). MTVN's proportionate share of equity was included in noncontrolling interest in Rhapsody in the consolidated balance sheets. On March 31, 2010, the Company and MTVN restructured Rhapsody, and RealNetworks held approximately 47% of the outstanding shares of capital stock of Rhapsody after the restructuring and as of December 31, 2011 and December 31, 2010. Since March 31, 2010, RealNetworks has not held a controlling interest in Rhapsody and therefore, the Company has treated its ownership interest in Rhapsody as an equity method investment. Rhapsody's financial position as of March 31, 2010 and its operating results beginning April 1, 2010 are no longer consolidated with RealNetworks' consolidated financial statements.

The consolidated financial statements reflect all adjustments that, in the opinion of the Company's management, are necessary for a fair presentation of the results of operations for the periods presented. Operating results for the year ended December 31, 2011 are not necessarily indicative of the results that may be expected for any subsequent quarters or for the year ending December 31, 2012.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In addition, current economic conditions may require the use of additional estimates, and certain estimates the Company currently makes are subject to a greater degree of uncertainty as a result of the current economic conditions.

Cash, Cash Equivalents, and Short-Term Investments. The Company considers all short-term investments with a remaining contractual maturity at date of purchase of three months or less to be cash equivalents.

The Company has classified as available-for-sale all marketable debt and equity securities for which there is determinable fair market value and there are no restrictions on the Company's ability to sell. Available-for-sale securities are carried at fair value, based on quoted market prices, with unrealized gains and losses reported as a separate component of shareholders' equity, net of applicable income taxes. All short-term investments have remaining contractual maturities of five years or less. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in other income (expense), net. Realized and unrealized gains and losses on available-for-sale securities are determined using the specific identification method.

Trade Accounts Receivable. Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts and sales returns is the Company's best estimate of the amount of probable credit losses and returns in the Company's existing accounts receivable. The Company determines the allowances based on analysis of historical bad debts, customer concentrations, customer credit-worthiness, return history and current economic trends. The Company reviews its

REALNETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

allowances for doubtful accounts and sales returns quarterly. Past due balances over 90 days and specified other balances are reviewed individually for collectability. All other balances are reviewed on an aggregate basis. Account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers.

REALNETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Concentration of Credit Risk. Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, and accounts receivable. Short-term investments consist of U.S. government and government agency securities and corporate notes and bonds. The Company derives a portion of its revenue from a large number of individual consumers spread globally. The Company also derives revenue from several large customers. If the financial condition or results of operations of any one of the large customers deteriorates substantially, the Company's operating results could be adversely affected. To reduce credit risk, management performs ongoing credit evaluations of the financial condition of significant customers. The Company does not generally require collateral and maintains an allowance for estimated credit losses on customer accounts when considered necessary.

Depreciation and Amortization. Depreciation and amortization of equipment, software, and leasehold improvements are computed using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. Approximate useful life of equipment and software is three to five years and for leasehold improvements is one to ten years.

Depreciation expense during the years ended December 31, 2011, 2010, and 2009 was $12.8 million, $18.7 million, and $22.7 million, respectively.

In 2011 the Company retired approximately $45.0 million of fully-depreciated equipment and other fixed assets and recognized an insignificant loss on the retirement.

Valuation of Equity Method Investments. The Company uses the equity method in circumstances where it has the ability to exert significant influence, but not control, over an investee or joint venture. The Company initially records its investment based on a fair value analysis of its investment. Prior to 2010, most of the Company's equity method investments were purchased with cash which was determined to be fair value. For the investment in Rhapsody as of March 31, 2010, the Company used multiple valuation models that were based on assumptions of future results made by management, including operating and cash flow projections, to calculate the fair value since the Company contributed both cash and non-cash items in exchange for its equity interest.

The Company records its percentage interest in the investee or joint venture's income or loss under this method, which will increase or decrease the value of the investment. The Company records investee losses up to the aggregate amount of the investment.

The Company evaluates impairment of an investment valued under the equity method only if events and circumstances warrant. An impairment charge would be recorded whenever a decline in value of an equity investment below its carrying amount is determined to be other than temporary. In determining if a decline is other than temporary, the Company considers factors such as the length of time and extent to which the fair value of the investment has been less than the carrying amount of the investee or joint venture, the near-term and longer-term operating and financial prospects of the investee or joint venture and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery.

Other Intangible Assets. Other intangible assets consist primarily of the fair value of customer agreements and contracts, developed technology, patents, trademarks and tradenames acquired in business combinations. Other intangible assets are amortized on a straight line basis over one to seven years, which approximates their estimated useful lives.

Goodwill. Goodwill is tested for impairment on an annual basis, in the Company's fourth quarter, or whenever events or changes in circumstances indicate that the fair value of the reporting unit to which goodwill relates is less than the carrying value. The Company considers a synthesis of the following important factors that could trigger an impairment review including the following:

- poor economic performance relative to historical or projected future operating results;
- significant negative industry, economic or company specific trends;
- market and interest rate risk;
- changes in the manner of our use of the assets or the plans for our business; and
- loss of key personnel.

In addition, the Company performs a reconciliation of its market capitalization plus a reasonable control premium to the aggregated implied fair value of all of its reporting units.

If the Company were to determine that the fair value of a reporting unit was less than its carrying value, including goodwill, based upon the annual test or the existence of one or more of the above indicators of impairment, the Company would measure impairment based on a comparison of the implied fair value of reporting unit goodwill with the carrying amount of goodwill. The implied fair value of goodwill is determined by allocating the fair value of a reporting unit to its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the goodwill of the reporting unit. To the extent the carrying amount of reporting unit goodwill is greater than the implied fair value of reporting unit goodwill, the Company would record an impairment charge for the difference. Judgment is required in determining the reporting units and assessing fair value of the reporting units.

The impairment analysis of goodwill is based upon estimates and assumptions relating to future revenue, cash flows, operating expenses, costs of capital and capital purchases. These estimates and assumptions are complex and subject to a significant degree of judgment with respect to certain factors including, but not limited to, the cash flows of long-term operating plans, market and interest rate risk, and risk-commensurate discount rates and cost of capital.

REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Long-Lived Assets. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by a comparison of the carrying amount of the assets to the estimated undiscounted future cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value.

Fair Value of Financial Instruments. The Company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions and credit risk.

Research and Development. Costs incurred in research and development are expensed as incurred. Software development costs are capitalized when a product's technological feasibility has been established through the date the product is available for general release to customers. Other than internal use software, the Company has not capitalized any software development costs, as technological feasibility is generally not established until a working model is completed, at which time substantially all development is complete.

Restructuring and Other Charges. During the years ended December 31, 2011, 2010 and 2009, the Company recorded restructuring charges of $8.7 million, $12.4 million and $4.0 million, respectively. These charges were primarily a result of workforce reductions. Severance charges accounted for a majority of the expense recorded.

Revenue Recognition. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is probable. Physical products are considered delivered to the customer once they have been shipped and title and risk of loss have been transferred. For online sales, the products or services are considered delivered at the time the products or services are made available, digitally, to the end user.

The Company recognizes revenue on a gross or net basis. In most arrangements, the Company contracts directly with end user customers, is the primary obligor and carries all collectability risk. In such arrangements, the Company recognizes revenue on a gross basis. In some cases, the Company utilizes third-party distributors to sell products or services directly to end user customers and carries no collectability risk. In such instances, the Company recognizes revenue on a net basis.

In the Company's direct to consumer business, the Company derives revenue through (1) subscriptions of SuperPass within the Company's Core Products segment and subscriptions sold by the Company's Games segment, (2) sales of content downloads, software and licenses offered by the Company's Core Products, Emerging Products and Games segments and (3) the sale of advertising and the distribution of third-party products on its websites and in its games. Prior to April 1, 2010, the Company's direct to consumer business also included the products and services offered by the Company's Music segment, which were primarily sold by the Company's Rhapsody joint venture and included in the Company's Music segment. Beginning on April 1, 2010, revenue from the Company's Rhapsody joint venture is no longer consolidated within the Company's financial statements. The Company now reports its share of Rhapsody's net income or losses as "Equity in net loss of Rhapsody and other equity method investments."

Consumer subscription products are paid in advance, typically for monthly, quarterly or annual duration. Subscription revenue is recognized ratably over the related subscription time period. Revenue from sales of content downloads, software and licenses is recognized at the time the product is made available, digitally, to the end user. Revenue generated from advertising on the Company's websites and from advertising and the distribution of third-party products included in its products is recognized as revenue at the time of delivery.

The Company also generates revenue through business-to-business channels by providing services within the Company's Core Products segment enabling mobile carriers to deliver audio and video content to their customers and by selling software licenses and products and related support and other services. Revenue generated from services provided to mobile carriers that enable the delivery of audio and video content to their customers is recognized as the services are provided. Setup fees to build these services are recognized ratably upon launch of the service over the remaining expected term of the service.

Non-software revenue arrangements with multiple deliverables are divided into separate units and revenue is allocated using estimated selling prices if the Company does not have vendor-specific objective evidence or third-party evidence of the selling prices of the deliverables. A portion of the revenue related to the sale of software licenses and products and related support and other services is recorded as unearned due to undelivered elements including, in some cases, post-delivery support and the right to receive unspecified upgrades or enhancements on a when-and-if-available basis. Unearned revenue due to undelivered elements is recognized ratably on a straight-line basis over the related products' contract term.

REALNETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Advertising Expenses. The Company expenses the cost of advertising and promoting its products as incurred. These costs are included in sales and marketing expense and totaled $35.7 million in 2011, $29.5 million in 2010 and $42.5 million in 2009. The Company also incurred $1.1 million and $33.3 million of advertising expenses with MTVN, a related party, in 2010 and 2009, respectively, with no amounts incurred in 2011.

Foreign Currency. The functional currency of the Company's foreign subsidiaries is the currency of the country in which the subsidiary operates. Assets and liabilities of foreign operations are translated into U.S. dollars using rates of exchange in effect at the end of the reporting period. The net gain or loss resulting from translation is shown as translation adjustment and included in accumulated other comprehensive income in shareholders' equity. Income and expense accounts are translated into U.S. dollars using average rates of exchange. Gains and losses from foreign currency transactions are included in the consolidated statements of operations. There were no significant gains or losses on foreign currency transactions in 2011, 2010, and 2009.

Derivative Financial Instruments. The Company conducts business internationally in several currencies. As such, it is exposed to adverse movements in foreign currency exchange rates. A portion of these risks are managed through the use of financial derivatives, but fluctuations in foreign exchange rates could impact the Company's results of operations and financial position. The Company's foreign currency risk management program reduces, but does not entirely eliminate, the impact of currency exchange rate movements.

Generally, the Company's practice is to manage foreign currency risk for the majority of material short-term intercompany balances through the use of foreign currency forward contracts. These contracts require the Company to exchange currencies at rates agreed upon at the contract's inception. Because the impact of movements in currency exchange rates on forward contracts offsets the related impact on the short-term intercompany balances, these financial instruments help alleviate the risk that might otherwise result from certain changes in currency exchange rates. The Company does not designate its foreign exchange forward contracts related to short-term intercompany accounts as hedges and, accordingly, the Company adjusts these instruments to fair value through results of operations. However, the Company may periodically hedge a portion of its foreign exchange exposures associated with material firmly committed transactions and long-term investments.

All derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. If the derivative is designated a hedge, then depending on the nature of the hedge, changes in fair value will either be recorded immediately in results of operations, or be recognized in accumulated other comprehensive income until the hedged item is recognized in results of operations.

Accounting for Gains on Sale of Subsidiary Stock. Effective January 1, 2009, the Company adopted Statement of Financial Accounting Standards No. 160, *Non-controlling Interests in Consolidated Financial Statements, an amendment to ARB No. 51* (SFAS 160) which was primarily codified into FASB ASC 810 — *Consolidation* (ASC 810). Current guidance requires that the difference between the carrying amount of the parent's investment in a subsidiary and the underlying net book value of the subsidiary after the issuance of stock by the subsidiary be recorded as an equity transaction. The Company elected to recognize any such gain in its consolidated statements of operations prior to January 1, 2009 as was allowable under generally accepted accounting principles in place at that time if certain recognition criteria were met. Due to the completion of the restructuring of Rhapsody on March 31, 2010, which resulted in the Company holding approximately 47% of the outstanding shares of capital stock of Rhapsody, this accounting policy will no longer apply with respect to its investment as the Company no longer consolidates Rhapsody and no longer reports a noncontrolling interest.

Accounting for Taxes Collected from Customers. The Company collects various types of taxes from its customers, assessed by governmental authorities, which are imposed on and concurrent with revenue-producing transactions. Such taxes are recorded on a net basis and are not included in net revenue of the Company.

Income Taxes. The Company computes income taxes using the asset and liability method, under which deferred income taxes are provided for temporary differences between financial reporting basis and tax basis of the Company's assets and liabilities and operating loss and tax credit carryforwards. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized. Deferred tax assets and liabilities and operating loss and tax credit carryforwards are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and operating loss and tax credit carryforwards are expected to be recovered or settled.

The Company files numerous consolidated and separate income tax returns in the United States including federal, state and local, as well as foreign jurisdictions. With few exceptions, the Company is no longer subject to United States federal income tax examinations for tax years before 2008 or state, local, or foreign income tax examinations for years before 1993. RealNetworks, Inc. and/or subsidiaries are under audit by various states and foreign jurisdictions for certain tax years subsequent to 1993.

Stock-Based Compensation. Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is the vesting period. The Company uses the Black-Scholes option-pricing model or other appropriate valuation models to determine the fair-value of stock-based option awards. The Company recognizes compensation cost related to options granted on a straight-line basis over the applicable vesting period. The valuation models require various highly judgmental assumptions including volatility in the Company's common stock price and expected option life. If any of the assumptions used in the valuation models change significantly, stock-based compensation expense may differ

REALNETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

materially in the future from the amounts recorded in the consolidated statements of operations. The Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest.

Noncontrolling Interest. The Company records noncontrolling interest expense (benefit) which reflects the portion of the earnings (losses) of majority-owned entities which are applicable to the noncontrolling interest holders in the consolidated statement of operations. Redeemable noncontrolling interests that are redeemable at either fair value or are based on a formula that is intended to approximate fair value follow the Company's historical disclosure only policy for the redemption feature. Redeemable noncontrolling interests that are redeemable at either a fixed price or are based on a formula that is not akin to fair value are reflected as an adjustment to income attributable to common shareholders based on the difference between accretion as calculated using the terms of the redemption feature and the accretion entry for a hypothetical fair value redemption feature with the remaining amount of accretion to redemption value recorded directly to equity. Net loss attributable to the noncontrolling interest in Rhapsody is included within the consolidated statements of operations and comprehensive income (loss). The Company applied this accounting policy to the noncontrolling interest in Rhapsody that was held by MTVN for periods beginning when Rhapsody was formed in August 2007 through the quarter ended March 31, 2010. Due to the completion of the restructuring of Rhapsody on March 31, 2010, which resulted in the Company holding approximately 47% of the outstanding shares of capital stock of Rhapsody, this accounting policy will no longer apply with respect to the Company's investment as the Company no longer consolidates Rhapsody and no longer reports a noncontrolling interest.

Net Income Per Share. Basic net income (loss) per share available to common shareholders is computed by dividing net income (loss) attributable to common shareholders adjusted for the impact, in 2010 and 2009, of MTVN's preferred return in Rhapsody by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share available to common shareholders is computed by dividing net income (loss) attributable to common shareholders adjusted for the impact, in 2010 and 2009, of MTVN's preferred return in Rhapsody by the weighted average number of common and dilutive potential common shares outstanding during the period. Basic and diluted net income (loss) per share available to common shareholders are calculated as follows (in thousands):

	Years Ended December 31,		
	2011	2010	2009
Net income (loss) available to common shareholders:			
Net income (loss) attributable to common shareholders	$(27,100)	$ 5,038	$(216,764)
Less termination (accretion) of MTVN's preferred return in Rhapsody	—	3,700	(3,700)
Net income (loss) available to common shareholders	$(27,100)	$ 8,738	$(220,464)
Weighted average common shares outstanding used to compute basic net income (loss) per share available to common shareholders	34,185	33,894	33,653
Dilutive potential common shares:			
Stock options and restricted stock	—	119	—
Shares used to compute diluted net income (loss) per share available to common shareholders	34,185	34,013	33,653
Basic net income (loss) per share available to common shareholders	$ (0.79)	$ 0.26	$ (6.55)
Diluted net income (loss) per share available to common shareholders	$ (0.79)	$ 0.26	$ (6.55)

Approximately 4.3 million, 5.0 million, and 6.5 million shares of common stock potentially issuable from stock options during the years ended December 31, 2011, 2010, and 2009, respectively, are excluded from the calculation of diluted net income (loss) per share because of their antidilutive effect.

Accumulated Other Comprehensive Income (loss). The Company's accumulated other comprehensive income (loss) as of December 31, 2011 and 2010 consisted of unrealized gains (losses) on marketable securities and foreign currency translation gains (losses).

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The components of accumulated other comprehensive loss, net of applicable tax, are as follows (in thousands):

	December 31, 2011	December 31, 2010
Unrealized gains on investments, net of taxes	$ 27,318	$ 17,859
Foreign currency translation adjustments	(52,202)	(50,402)
Accumulated other comprehensive income (loss)	$(24,884)	$(32,543)

Reclassifications. Certain reclassifications have been made to the 2010 and 2009 consolidated financial statements to conform to the 2011 presentation.

Recently Issued Accounting Standards. With the exception of those discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the year ended December 31, 2011, as compared to the recent accounting pronouncements described in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, that are of significance, or potential significance to the Company.

In September 2009, the FASB ratified Accounting Standards Update (ASU) 2009-13 (ASU 2009-13) (previously Emerging Issues Task Force (EITF) Issue No. 08-1, *Revenue Arrangements with Multiple Deliverables* (EITF 08-1)). ASU 2009-13 supersedes EITF 00-21 and addresses criteria for separating the consideration in multiple-element arrangements. ASU 2009-13 requires companies to allocate the overall consideration to each deliverable by using a best estimate of the selling price of individual deliverables in the arrangement in the absence of vendor-specific objective evidence or other third-party evidence of the selling price.

In September 2009, the FASB ratified ASU 2009-14 (ASU 2009-14) (previously EITF No. 09-3, *Certain Revenue Arrangements That Include Software Elements)* . ASU 2009-14 modifies the scope of Software Revenue Recognition to exclude (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality.

The Company elected to adopt ASU 2009-13 and ASU 2009-14 at the beginning of the first quarter of 2011 on a prospective basis. The Company did not have a significant change in units of accounting, allocation methodology, or timing of revenue recognition. As a result, the adoption of these accounting standards did not have a material impact on the Company's consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, *Intangibles — Goodwill and Other (Topic 350): Testing Goodwill for Impairment* , which permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. ASU 2011-08 will be effective for fiscal years beginning after December 15, 2011. The Company does not expect the adoption of ASU 2011-08 to have a material effect on its consolidated financial statements.

Note 2. Stock-Based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is the vesting period. The Company has granted time-vest and performance-vest stock options and time-vest and performance-vest restricted stock. See Note 13 Shareholders' Equity for additional details on stock awards.

The Company uses the Black-Scholes option-pricing model or other appropriate valuation models to determine the fair-value of stock-based option awards. The Company recognizes compensation cost related to options granted on a straight-line basis over the applicable vesting period.

The expected term of the options represents the estimated period of time until exercise and is based on historical experience of similar awards, including the contractual terms, vesting schedules, and expectations of future employee behavior. Expected stock price volatility is based on historical volatility of the Company's stock for the related expected term. The risk-free interest rate is based on the implied yield available on U.S. Treasury zero-coupon issues with a term equivalent to the expected term of the stock options. Notwithstanding the special cash dividend of $1.00 per share paid on the Company's common stock during the quarter ended September 30, 2011, the dividend yield is estimated at zero because the Company does not currently anticipate paying dividends in the foreseeable future.

REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The fair value of options granted determined using the Black-Scholes model used the following weighted average assumptions:

	Years Ended December 31,		
	2011	2010	2009
Expected dividend yield	0%	0%	0%
Risk-free interest rate	1.31%	1.56%	1.78%
Expected term (years)	4.0	4.0	4.2
Volatility	54%	62%	63%

REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Stock-based compensation expense recognized in the Company's consolidated statements of operations is as follows (in thousands):

	Years Ended December 31,		
	2011	2010	2009
Cost of service revenue	$ 866	$ 1,189	$ 1,653
Research and development	1,282	3,215	8,327
Sales and marketing	4,387	3,788	4,830
General and administrative	4,376	4,011	6,650
Restructuring and other charges	836	—	—
Total stock-based compensation expense	$11,747	$12,203	$21,460

No stock-based compensation was capitalized as part of the cost of an asset as of December 31, 2011, 2010, or 2009. As of December 31, 2011, the Company had $11.4 million of total unrecognized compensation cost, net of estimated forfeitures, related to stock options and restricted stock. The unrecognized compensation cost is expected to be recognized over a weighted-average period of approximately three years.

For further information related to the Company's equity compensation plans see Note 13, Shareholders' Equity.

Note 3. Rhapsody Joint Venture

Restructuring of Rhapsody

As described in Note 1, Description of Business and Summary of Significant Accounting Policies, the Company initially formed in 2007 a joint venture with MTVN to own and operate a business-to-consumer digital audio music service known as Rhapsody. Prior to March 31, 2010, the Company owned 51% of the outstanding equity interests of Rhapsody and MTVN owned the remaining 49%. On March 31, 2010, restructuring transactions involving Rhapsody were completed, and Rhapsody was converted from a limited liability company to a corporation. Following the completion of the restructuring transactions, RealNetworks owned approximately 47%, MTVN owned 47%, and two minority stockholders held slightly more than 5% of the outstanding shares of capital stock of Rhapsody.

As part of the March 31, 2010 restructuring, RealNetworks contributed $18.0 million in cash, the Rhapsody brand and certain other assets, including content licenses, in exchange for shares of convertible preferred stock of Rhapsody, carrying a $10.0 million preference upon certain liquidation events. RealNetworks also repurchased the international radio business that was previously contributed to Rhapsody by RealNetworks. MTVN contributed a $33.0 million advertising commitment in exchange for shares of common stock of Rhapsody, and MTVN's previous obligation to provide advertising of approximately $111 million as of December 31, 2009 was cancelled. In addition, the put and call rights held by RealNetworks and MTVN and MTVN's rights to receive a preferred return in connection with the exercise of MTVN's put right were terminated. RealNetworks is also providing certain operational transition services to Rhapsody. These transition services are expected to be completed in the first half of 2012. Rhapsody is governed by a board of directors with two directors appointed by each of the Company and MTVN and one independent director appointed by mutual agreement of the Company and MTVN.

Effective March 31, 2010, RealNetworks no longer has a controlling interest in Rhapsody and therefore, the operating results of Rhapsody are accounted for under the equity method of accounting for investments, and the Company's proportionate share of the income or loss is recognized as a component of "Other income (expense), net" in the Company's consolidated statements of operations in periods subsequent to March 31, 2010. As a result of the deconsolidation of Rhapsody's operations from the Company's financial statements, the Company will no longer record any operating results for its Music segment for periods subsequent to March 31, 2010. The removal of these assets and liabilities and the creation of the initial equity method investment resulted in a one-time net gain of $10.9 million recorded in "Other income (expense), net" in the Company's consolidated statement of operations, at which time the Company determined the fair value of its retained equity interest of approximately 47% to be approximately $29.7 million as of March 31, 2010. The Company recorded its share of losses in the operations of Rhapsody of $7.9 million for the year ended December 31, 2011 and $14.2 million for the nine month period from April 1, 2010 to December 31, 2010. These losses reduced the original carrying value of the equity investment accordingly to approximately $7.6 million as of December 31, 2011.

As mentioned above, MTVN's preferred return rights were terminated in 2010 in connection with the restructuring of Rhapsody. Prior to the restructuring, if the appraised value of Rhapsody at a redemption date was less than $436.3 million, then the exercise price of the put right would have included a preferred return to MTVN. The Company previously elected to accrete any excess of the redemption value over the carrying amount of the noncontrolling interest as an adjustment to income attributable to common shareholders, and adjusted earnings per share for the current quarter's accretion of the difference between accretion as calculated using the terms of the redemption feature and the accretion entry for a hypothetical fair value redemption feature. Due to the termination of MTVN's preferred return rights at the completion of the restructuring, the Company decreased the noncontrolling

REALNETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

interest that was on its consolidated balance sheet on March 31, 2010 prior to the transaction described above by $10.4 million as part of the deconsolidation transactions, of which $3.7 million was an adjustment to income attributable to common shareholders for the purposes of calculating earnings per share for the year ended December 31, 2010.

Summarized financial information for Rhapsody, which represents 100% of their financial information, for the period accounted for under the equity method is as follows (in thousands);

	Twelve Months Ended December 31, 2011	Nine Months Ended December 31, 2010
Statements of Operations Data:		
Net revenue	$ 127,184	$ 91,279
Gross profit	39,137	25,702
Net loss	(13,580)	(31,007)

	As of December 31, 2011	As of December 31, 2010
Balance Sheet Data:		
Current assets	$ 38,128	$ 36,391
Non-current assets	21,717	16,748
Current liabilities	35,259	32,117
Non-current liabilities	691	7,494

Note 4. Fair Value Measurements

The Company measures certain financial assets at fair value on a recurring basis, including cash equivalents, short-term investments, and equity investments. The fair value of these financial assets was determined based on three levels of inputs:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active
- Level 3: Unobservable inputs that reflect the Company's own assumptions

REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Items Measured at Fair Value on a Recurring Basis

The following table presents information about the Company's financial assets that have been measured at fair value (in thousands) on a recurring basis as of December 31, 2011 and 2010 and indicates the fair value hierarchy of the valuation inputs utilized to determine such fair value.

	Fair Value Measurements as of December 31, 2011			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Cash equivalents				
Money market funds	$ 6,544	$ 6,544	$ —	$ —
Corporate notes and bonds	20,697	20,697	—	—
Short-term investments				
Corporate notes and bonds	39,254	39,254	—	—
U.S. government agency securities	39,485	39,485	—	—
Restricted cash	10,168	10,168	—	—
Equity investments				
Publicly traded investments	37,204	37,204	—	—
Total	$153,352	$153,352	$ —	$ —

	Fair Value Measurements as of December 31, 2010			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Cash equivalents				
Money market funds	$ 44,348	$ 44,348	$ —	$ —
Corporate notes and bonds	120,984	120,984	—	—
U.S. government agency securities	3,700	3,700	—	—
Short-term investments				
Corporate notes and bonds	76,157	76,157	—	—
U.S. government agency securities	22,146	22,146	—	—
Restricted cash	10,000	10,000	—	—
Equity investments				
Publicly traded investments	27,541	27,541	—	—
Total	$304,876	$304,876	$ —	$ —

Investments in marketable securities classified as short-term investments and equity investments of public companies are measured at fair value using quoted market prices and are classified within Level 1 of the valuation hierarchy. The Company carries its equity investments in private companies at cost and no fair value is derived on a recurring basis.

Items Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities of the Company are measured at estimated fair value on a non-recurring basis. These assets and liabilities are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). The Company performed a valuation using Level 3 inputs of its investment in the Rhapsody joint venture as of March 31, 2010. The Company performed the analysis as a result of the restructuring and related deconsolidation of Rhapsody, which is further described in Note 3, Rhapsody Joint Venture. The fair value analysis used multiple valuation models and was based on assumptions of future results made by management, including operating and cash flow projections.

The Company also performed a valuation of its goodwill as of June 30, 2009 using Level 3 inputs and recorded goodwill impairment charges of $175.6 million during the quarter ended June 30, 2009. See Note 10, Goodwill, for additional information.

See Note 7, Deferred Costs, for a description of the $20.0 million impairment charge for deferred project costs in the quarter ended December 31, 2011.

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Note 5. Cash and Cash Equivalents, Short-Term Investments, and Restricted Cash Equivalents and Investments

Cash and cash equivalents, short-term investments, and restricted cash equivalents and investments as of December 31, 2011 consist of the following (in thousands):

	Amortized Cost	Estimated Fair Value
Cash and cash equivalents:		
Cash	$ 79,092	$ 79,092
Money market mutual funds	6,544	6,544
Corporate notes and bonds	20,697	20,697
Total cash and cash equivalents	106,333	106,333
Short-term investments:		
Corporate notes and bonds	39,309	39,254
U.S. Government agency securities	39,413	39,485
Total short-term investments	78,722	78,739
Total cash, cash equivalents, and short-term investments	$185,055	$185,072
Restricted cash equivalents and investments	$ 10,168	$ 10,168

Cash and cash equivalents, short-term investments, and restricted cash equivalents and investments as of December 31, 2010 consist of the following (in thousands):

	Amortized Cost	Estimated Fair Value
Cash and cash equivalents:		
Cash	$ 66,986	$ 66,986
Money market mutual funds	44,348	44,348
Corporate notes and bonds	120,984	120,984
U.S. Government agency securities	3,700	3,700
Total cash and cash equivalents	236,018	236,018
Short-term investments:		
Corporate notes and bonds	75,962	76,157
U.S. Government agency securities	22,126	22,146
Total short-term investments	98,088	98,303
Total cash, cash equivalents, and short-term investments	$334,106	$334,321
Restricted cash equivalents and investments	$ 10,000	$ 10,000

At December 31, 2011 and 2010, restricted cash equivalents and investments represent cash equivalents and short-term investments pledged as collateral against a letter of credit in connection with lease agreements.

Realized gains or losses on sales of available-for-sale securities for 2011, 2010, and 2009 were not significant.

Gross unrealized gains and gross unrealized losses on short-term investment securities at both December 31, 2011 and 2010 were not significant.

The contractual maturities of short-term investments at December 31, 2011 are as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Within one year	$37,389	$37,400
Between one year and five years	41,333	41,339
Total short-term investments	$78,722	$78,739

REALNETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 6. Allowance for Doubtful Accounts Receivable and Sales Returns

Activity in the allowance for doubtful accounts receivable is as follows (in thousands):

	Years Ended December 31,		
	2011	2010	2009
Balance, beginning of year	$1,529	$ 2,912	$ 3,532
Additions charged to expenses	693	114	1,523
Amounts written off	(742)	(1,364)	(2,117)
Effects of foreign currency translation	(35)	(133)	(28)
Balance, end of year	$1,445	$ 1,529	$ 2,912

Activity in the allowance for sales returns is as follows (in thousands):

	Years Ended December 31,		
	2011	2010	2009
Balance, beginning of year	$ 1,039	$ 1,012	$ 1,099
Additions charged to revenue	939	3,175	2,840
Amounts written off	(1,311)	(3,149)	(2,927)
Effects of foreign currency translation	1	1	—
Balance, end of year	$ 668	$ 1,039	$ 1,012

One customer accounted for 17% of trade accounts receivable as of December 31, 2011. One customer accounted for 15% of trade accounts receivable as of December 31, 2010.

No one customer accounted for more than 10% of total revenue during the years ended December 31, 2011, 2010 and 2009.

Note 7. Deferred Costs

Deferred costs, consisting of costs being amortized over the respective contract lives, are as follows (in thousands):

	December 31,	
	2011	2010
Deferred costs	$2,267	$27,574
Less current portion	1,424	9,173
Deferred costs, non-current portion	$ 843	$18,401

The Company defers certain costs on projects for service revenues and system sales. Deferred costs consist primarily of direct and incremental costs to customize and install systems, as defined in individual customer contracts, including costs to acquire hardware and software from third parties and payroll and related costs for employees and other third parties. Deferred costs are capitalized during the implementation period.

The Company recognizes such costs as a component of cost of revenue, the timing of which is dependent upon the revenue recognition policy by contract. For revenue recognized under the completed contract method, costs are deferred until the products are delivered, or upon completion of services or, where applicable, customer acceptance. For revenue recognized under the percentage of completion method, costs are recognized as products are delivered or services are provided. For revenue recognized ratably over the term of the contract, costs are also recognized ratably over the term of the contract, commencing on the date of revenue recognition. At each balance sheet date, the Company reviews its deferred costs to ensure they are ultimately recoverable. Any anticipated losses on uncompleted contracts are recognized when evidence indicates the estimated total cost of a contract exceeds its estimated total revenue or if actual deferred costs exceed contractual revenue. As of December 31, 2011, the Company determined that the total estimated costs associated with certain projects exceeded the total estimated revenues expected to be recognized on those projects. As a result, the Company impaired approximately $16.7 million in deferred project costs and an additional $3.3 million of equipment and software assets that related solely to these projects.

The $20.0 million charge was included in impairment of deferred project costs in the accompanying consolidated statements of operations and comprehensive income for the year ended December 31, 2011. No such charges existed in 2010 or 2009. Assessing the recoverability of deferred costs is based on significant assumptions and estimates, including future revenue and cost of sales. Significant or sustained decreases in revenue or increases in cost of sales in future periods could result in additional impairments of deferred project costs and prepaid royalty advances. The Company cannot accurately predict the amount and timing of such impairments. Should the value of deferred project costs or prepaid royalty advances become impaired, the Company would record the appropriate charge, which could have a material adverse effect on its financial condition or results of operations.

Note 8. Available for Sale Securities

The Company has certain available for sale securities in which the Company holds less than a 20 percent voting interest. Publicly traded investments are accounted for as available-for-sale and carried at market value. Changes in the market value of the investments are recognized as unrealized gains (losses), net of income tax, and are recorded in the accompanying consolidated balance sheets as a component of accumulated other comprehensive income. Private company investments are recorded at cost.

REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Summary of available for sale securities is as follows (in thousands):

	2011		2010	
	Cost	Carrying Value	Cost	Carrying Value
Available for sale securities	$10,765	$37,204	$10,765	$27,541

As of December 31, 2011 and 2010, the carrying value of equity investments in publicly traded companies consists primarily of J-Stream Inc., a Japanese media services company, and LoEn Entertainment, a Korean digital music distribution company. The market values of the shares of J-Stream and LoEn Entertainment at December 31, 2011 were $4.5 million and $32.7 million, respectively. Although the carrying value of the available for sale securities exceeds the cost basis at December 31, 2011, there can be no assurance that any gain can be realized through the disposition of these shares.

Note 9. Other Intangible Assets

Other intangible assets consist of the following (in thousands):

	Gross Amount	Accumulated Amortization	Net
Customer relationships	$29,478	$ 24,757	$4,721
Developed technology	28,793	26,483	2,310
Patents, trademarks and tradenames	5,216	5,182	34
Service contracts	6,144	6,040	104
Total other intangible assets, December 31, 2011	$69,631	$ 62,462	$7,169
Total other intangible assets, December 31, 2010	$66,831	$ 59,879	$6,952

The increase in other intangible assets in 2011 related to the acquisition of two small businesses in 2011.

Amortization expense related to other intangible assets during the years ended December 31, 2011, 2010, and 2009 was $4.1 million, $4.7 million, and $8.8 million, respectively.

As of December 31, 2011 estimated future amortization of other intangible assets is as follows (in thousands):

2012	$3,983
2013	2,460
2014	403
2015	323
2016	—
Thereafter	—
Total	$7,169

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. If the carrying amount of an asset is not recoverable, an impairment loss is recognized based on the excess of the carrying amount of the long-lived asset over its respective fair value, which is generally determined as the present value of estimated future cash flows. The impairment analysis is based on significant assumptions of future results made by management, including operating and cash flow projections. No impairments of other intangible assets were recognized in 2011, 2010 or 2009.

REALNETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The impairment analysis for long-lived assets is based on significant assumptions of future results made by management, including revenue and cash flow projections. Significant or sustained declines in future revenue or cash flows, or adverse changes in the Company's business climate, among other factors, could result in the need to perform an impairment analysis in future interim periods. The Company cannot accurately predict the amount and timing of any impairment of long-lived assets. Should the value of its long-lived assets become impaired, it would record the appropriate charge, which could have an adverse effect on its financial condition and results of operations.

Note 10. Goodwill

Changes in goodwill are as follows (in thousands):

	2011	2010
Balance, beginning of year		
Goodwill	$ 315,613	$ 310,653
Accumulated impairment losses	(310,653)	(310,653)
	4,960	—
Changes in Goodwill		
Increases due to current year acquisitions	1,385	4,638
Effects of foreign currency translation	(147)	322
	1,238	4,960
Balance, end of year		
Goodwill	316,851	315,613
Accumulated impairment losses	(310,653)	(310,653)
	$ 6,198	$ 4,960

Goodwill is assigned to the Company's segments as follows (in thousands):

	December 31, 2011	December 31, 2010
Core products	769	—
Emerging products	580	—
Games	4,849	4,960
Total goodwill	$6,198	$4,960

In 2011 the Company acquired two small businesses, recording goodwill at the acquisition dates totaling $1.4 million, and in 2010, the Company acquired Backstage for approximately $6.0 million and recorded associated goodwill of $4.6 million.

During the quarter ended June 30, 2009, the Company determined that the implied fair value of goodwill was zero for each of its reporting units. As a result, the Company impaired $175.6 million, the remaining amount of its goodwill, during the quarter ended June 30, 2009. No impairments of goodwill were recorded in 2011 or 2010.

Note 11. Accrued and Other Liabilities

Accrued and other liabilities consist of (in thousands):

	December 31, 2011	December 31, 2010
Royalties and costs of sales and fulfillment	$26,651	$30,190
Employee compensation, commissions and benefits	12,698	19,353
Sales, VAT and other taxes payable	11,389	13,104
Deferred tax liabilities—current	232	12,162
Other	8,224	10,893
Total	$59,194	$85,702

REALNETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 12. Loss on Excess Office Facilities

The Company completed a business and operational reorganization which led to the reduction of its use of office space in its corporate headquarters in Seattle, Washington and one of its offices in Europe. As a result, the Company recorded losses of $7.4 million during the year ended December 31, 2010. These losses represented approximately $5.5 million of rent and contractual operating expenses over the remaining life of the lease, and approximately $1.6 million for the write-down of leasehold improvements to their estimated fair value. The Company regularly evaluates the market for office space. The total accrued loss of $2.7 million and $4.5 million for estimated future losses on excess office facilities at December 31, 2011 and 2010, respectively, is shown net of expected future sublease income of $0.6 million and $0.1 million, respectively. The Company regularly evaluates the market for office space in the cities where it has operations.

Changes to the accrued losses on excess office facilities are as follows (in thousands):

	December 31,	
	2011	2010
Accrued loss, beginning of year	$ 4,524	$ 3,228
Additional accrued loss on excess office facilities resulting from 2010 restructuring	—	7,396
Less write-down of leasehold improvements	—	(1,552)
Less amounts paid, net of sublease income	(1,131)	(4,548)
Sublease income estimate revision	(646)	—
Accrued loss on excess office facilities, end of year	2,747	4,524
Less current portion	(596)	(1,144)
Accrued loss on excess office facilities, non-current portion	$ 2,151	$ 3,380

Note 13. Shareholders' Equity

Preferred Stock. Each share of Series A preferred stock entitles the holder to one thousand votes and dividends equal to one thousand times the aggregate per share amount of dividends declared on the common stock. There are no shares of Series A preferred stock outstanding.

Undesignated preferred stock will have rights and preferences that are determinable by the Board of Directors when determination of a new series of preferred stock has been established.

Shareholder Rights Plan. On December 2, 2008, the Company and Mellon Investor Services LLC entered into an Amended and Restated Shareholder Rights Plan (Amended and Restated Rights Plan) which amended and restated the existing Shareholder Rights Plan dated December 4, 1998, as amended (Existing Rights Plan). In connection with the Existing Rights Plan, on October 16, 1998, the Company's board of directors declared a dividend of a right to purchase one one-thousandth of a share of the Company's Series A preferred stock (Right) for each outstanding share of the Company's common stock on December 14, 1998 (Record Date). Each share of common stock issued after the Record Date will be issued with an attached Right. The Rights will not immediately be exercisable and detachable from the common stock. The Rights will become exercisable and detachable only following the earlier of the acquisition of the Company by a person or a group of 15 percent or more of the outstanding common stock or ten days following the announcement of a tender or exchange offer for 15 percent or more of the outstanding common stock (Distribution Date). Notwithstanding the foregoing, Robert Glaser, the Company's Chairman of the Board of Directors, is excluded as a person who can trigger the Distribution Date so long as he does not increase his beneficial ownership of shares of the Company's common stock above the number of shares he holds as of the date of the Amended and Restated Rights Plan, except for shares of the Company's common stock he acquires from the exercise of stock options or from stock awards granted to him in connection with his employment with the Company. After the Distribution Date, each Right will entitle the holder to purchase for $120.00 (Exercise Price) one one-thousandth (1/1000th) of a share of the Company's Series A preferred stock with economic terms similar to that of one share of the Company's common stock. Upon a person or a group acquiring 15 percent or more of the outstanding common stock, each Right will allow the holder (other than the acquirer) to purchase common stock or securities of the Company having a then current market value of two times the Exercise Price of the Right. In the event that following the acquisition of 15 percent of the common stock by an acquirer, the Company is acquired in a merger or other business combination or 50 percent or more of the Company's assets or earning power are sold, each Right will entitle the holder to purchase for the Exercise Price, common stock or securities of the acquirer having a then current market value of two times the Exercise Price. In certain circumstances, the Rights may be redeemed by the Company at a redemption price of $0.001 per Right. If not earlier exchanged or redeemed, the Rights will expire on December 2, 2018.

Equity Compensation Plans. The Company has equity-based awards outstanding under five equity compensation plans (Plans) to compensate employees and Directors for past and future services. Generally, options vest based on continuous employment, over a two, four or five-year period. The options expire in either seven, ten, or twenty years from the date of grant and are exercisable at the fair market value of the common stock at the grant date.

REALNETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Restricted Stock Units and Awards. In 2011, 2010, and 2009, the Company granted restricted stock units and awards representing 520,199, 71,246, and 12,534 shares of common stock, respectively, pursuant to the Company's 2005 Stock Incentive Plan (2005 Plan). In 2011, 2010 and 2009 restricted stock units and awards that vested totaled 94,361, 44,763 and 52,495, respectively. Non-vested restricted stock units and awards outstanding at the end of the December 31, 2011, 2010 and 2009 totaled 462,922, 86,511 and 117,857. Each restricted stock unit granted or cancelled either reduces or increases the shares available for grant under the 2005 Plan by a specified factor set forth in the 2005 Plan. This factor by which restricted stock units affect the shares available for grant was changed from 1.6 shares to 2.2 shares as of June 25, 2007 and was subsequently changed back to 1.6 shares, effective December 17, 2009.

A summary of stock options and restricted stock units activity is set forth in the table below. Prior to August 2011, amounts set forth in the table below reflect actual transactions that occurred as of the dates set forth and as a result are appropriately not adjusted for the special cash dividend paid in August 2011.

	Shares Available for Grant in (000's)	Options Outstanding Number of Shares in (000's)	Options Outstanding Weighted Average Exercise Price	Weighted Average Fair Value Grants
Balances, December 31, 2008	1,928	9,884	$ 29.64	
Options granted at common stock price	(812)	812	12.00	6.00
Stock awards and restricted stock units granted	(27)			11.08
Stock awards and restricted stock units cancelled	56			
Options cancelled as part of stock option exchange(1)	1,275	(4,735)	31.60	
Options granted as part of stock option exchange(1)	—	2,016	14.52	
Options exercised	—	(9)	5.96	
Options cancelled	1,443	(1,443)	30.04	
Balances, December 31, 2009	3,863	6,525	24.44	
Options granted at common stock price	(1,752)	1,752	15.56	7.48
Stock awards and restricted stock units granted	(114)			12.68
Stock awards and restricted stock units cancelled	112			
Options exercised	—	(133)	11.80	
Options cancelled	2,585	(2,585)	21.36	
Balances, December 31, 2010	4,694	5,559	19.68	
Options granted at common stock price	(2,250)	2,250	9.54	5.08
Stock awards and restricted stock units granted	(831)			9.40
Stock awards and restricted stock units cancelled	119			
Increase in shares available to grant from special cash dividend(2)	1,843			
Options exercised	—	(210)	10.57	
Options cancelled	1,234	(1,234)	14.72	
Balances, December 31, 2011	4,809	6,365	14.24	

(1) The Company's stock option exchange program and the amended and restated 2005 Stock Incentive Plan used a specific calculation to determine the number of shares available for grant immediately after the exchange. Based on this calculation, the number of shares available as of December 17, 2009 was 4.0 million shares. This resulted in an increase of the previously outstanding number available for grant by approximately 1.3 million shares.

(2) In connection with the Company's special cash dividend of $1.00 per share of common stock paid in August 2011, and pursuant to the terms of the 2005 Plan, adjustments were made to the aggregate number of shares authorized for issuance under the 2005 Plan to reflect the special dividend. As a result of these adjustments, the previously outstanding number of shares authorized for issuance under the 2005 Plan was increased by approximately 1.8 million shares. Also in connection with the special cash dividend and one-for-four reverse stock split in August 2011, the Company made equitable adjustments to outstanding options and restricted stock units in accordance with the Company's equity compensation plans. For all awards, the fair value of the award before and after the dividend and one-for-four reverse stock split remained the same, thus no incremental expense was recognized in the Company's financial statements as a result of these equitable adjustments.

REALNETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes information about stock options outstanding at December 31, 2011:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number of Shares (in 000's)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Shares (in 000's)	Weighted Average Exercise Price
\$0.04 — \$7.00	208	4.11	\$ 3.94	181	\$ 3.58
\$7.08 — \$7.44	920	6.84	7.43	7	7.21
\$7.48 — \$10.20	647	5.76	8.37	193	8.29
\$10.28 — \$10.36	91	6.38	10.34	7	10.36
\$10.40 — \$10.52	1,128	4.80	10.51	1,071	10.52
\$10.56 — \$11.04	250	5.53	10.89	186	10.88
\$11.08 — \$11.36	761	5.79	11.36	116	11.34
\$11.40 — \$14.40	691	4.26	13.62	348	13.52
\$14.56 — \$20.36	692	3.51	18.83	669	18.82
\$20.48 — \$180.00	977	2.31	31.67	966	31.77
	6,365	4.76	\$ 14.24	3,744	\$ 17.35

The weighted average remaining contractual life of the exercisable options in the table above is 3.8 years. The aggregate intrinsic value of stock options exercised in 2011, 2010 and 2009 was \$0.3 million, \$0.5 million and \$0.1 million. The aggregate intrinsic value of options outstanding and options exercisable as of December 31, 2011 was \$0.8 million and \$0.7 million, respectively.

Employee Stock Purchase Plan. In 2007, the Company adopted the 2007 Employee Stock Purchase Plan (2007 ESPP) to replace the 1998 Employee Stock Purchase Plan, which expired on December 31, 2007 following the conclusion of the final offering period. There are 1.1 million shares of common stock reserved for issuance under the 2007 ESPP. Under the 1998 ESPP and the 2007 ESPP, an eligible employee may purchase shares of common stock, based on certain limitations, at a price equal to 85 percent of the fair market value of the common stock at the end of the semi-annual offering periods. Under the 2007 ESPP, 110,000, 90,250, and 127,750 shares at a weighted average fair value of the employee stock purchase rights of \$1.53, \$2.32, and \$1.96 were purchased during the years ended December 31, 2011, 2010 and 2009, respectively.

Stock Option Exchange. On September 21, 2009, RealNetworks' shareholders approved a proposal to allow for a one-time stock option exchange program designed to provide eligible employees an opportunity to exchange certain outstanding underwater stock options for a lesser amount of new options to be granted with lower exercise prices. Stock options eligible for exchange were those with an exercise price per share greater than \$13.92. On November 19, 2009, the Company commenced the option exchange program, which expired on December 17, 2009. A total of 4.7 million eligible stock options were tendered by employees, representing 72% of the total stock options eligible for exchange. Section 16 officers and directors of the Company were not eligible to participate in the exchange. On December 17, 2009, the Company granted an aggregate of 2.0 million new stock options in exchange for the eligible stock options surrendered. The exercise price of the new stock options was \$10.52, which was the closing price of the Company's common stock on December 17, 2009. The new stock options were granted under the 2005 Plan. No incremental stock option expense was recognized for the exchange because the fair value of the new options, using standard employee stock option valuation techniques, was not greater than the fair value of the surrendered options they replaced.

Note 14. Income Taxes

Components of income (loss) before income taxes are as follows (in thousands):

	Years Ended December 31,		
	2011	2010	2009
United States operations	\$(50,100)	\$(49,650)	\$(191,738)
Foreign operations	5,671	15,327	(47,970)
Income (loss) before income taxes	\$(44,429)	\$(34,323)	\$(239,708)

REALNETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Components of income tax expense (benefit) are as follows (in thousands):

	Years Ended December 31,		
	2011	2010	2009
Current:			
United States federal	$ 422	$(45,844)	$(3,400)
State and local	920	(379)	457
Foreign	5,314	9,150	2,009
Total current	6,656	(37,073)	(934)
Deferred:			
United States federal	(22,006)	—	5,741
State and local	(555)	—	(741)
Foreign	(1,424)	622	(745)
Total deferred	(23,985)	622	4,255
Total income tax expense (benefit)	$(17,329)	$(36,451)	$ 3,321

Income tax expense differs from "expected" income tax expense (computed by applying the U.S. federal income tax rate of 35%) due to the following (in thousands):

	Years Ended December 31,		
	2011	2010	2009
United States federal tax expense (benefit) at statutory rate	$(15,550)	$(12,013)	$(83,898)
State taxes, net of United States federal tax benefit	1,320	(379)	(284)
Change in valuation allowance	(9,119)	13,191	16,207
Non-deductible stock compensation	571	992	1,551
Non-deductible goodwill impairment charge	—	—	54,740
Impact of non-U.S. jurisdictional tax rate difference	(368)	(1,173)	5,206
Non-taxable income attributable to noncontrolling interest	—	1,018	9,193
Extraterritorial Income Exclusion and previously acquired NOLs	—	(32,232)	—
Research and development tax credit	(1,372)	(2,053)	(1,727)
Increase/(reversal) of unrecognized tax benefits	2,100	(4,410)	2,137
Other	5,089	608	196
Total income tax expense (benefit)	$(17,329)	$(36,451)	$ 3,321

REALNETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Net deferred tax assets are comprised of the following (in thousands):

	December 31, 2011	December 31, 2010
Deferred tax assets:		
United States federal net operating loss carryforwards	$ 28,228	$ 29,411
Deferred expenses	14,056	6,515
Research and development tax credit carryforwards	21,496	21,063
Alternative minimum tax credit carryforward	3,068	3,068
Net unrealized loss on investments	10,943	11,512
Capital loss carryforwards	5,297	5,302
Accrued loss on excess office facilities	997	1,696
Stock-based compensation	16,101	15,124
State net operating loss carryforwards	3,999	5,702
Foreign net operating loss carryforwards	20,582	3,092
Deferred revenue	495	1,150
Equipment, software, and leasehold improvements	8,133	10,285
Intangibles	48	47
Other	6,457	7,502
Gross deferred tax assets	139,900	121,469
Less valuation allowance	105,189	106,169
Gross deferred tax assets, net of valuation allowance	34,711	15,300
Deferred tax liabilities:		
Other intangible assets	(1,550)	(1,297)
Net unrealized gains on investments	(3,904)	(7,088)
Other	(880)	(1,236)
Prepaid expenses	(1,445)	(2,184)
Capitalized software development costs	(3,504)	(2,971)
Gross deferred tax liabilities	(11,283)	(14,776)
Net deferred tax assets	$ 23,428	$ 524

Income tax receivables were $6.7 million and $14.6 million at December 31, 2011 and 2010, respectively. The Company records a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets depends on the ability to generate sufficient taxable income of the appropriate character in the appropriate taxing jurisdictions. During the year ended December 31, 2011, the Company released $22.6 million of the valuation allowance related to the Company's deferred tax assets. These deferred tax assets relate primarily to capital loss carryforwards, and net operating loss carryforwards which the Company determined it will more likely than not be able to utilize due to the generation of sufficient taxable income in the future from the asset purchase agreement the Company entered into on January 26, 2012 with Intel Corporation pursuant to which it will sell certain patent assets and related rights for $120 million in cash. Of the total valuation allowance release, $22.6 million was recorded as an income tax benefit in the Consolidated Financial Statements. The Company maintains a partial valuation allowance of $105.2 million for its deferred tax assets due to uncertainty regarding their realization as of December 31, 2011. Adjustments could be required in the future if the Company estimates that the amount of deferred tax assets to be realized is more or less than the net amount the Company has recorded. Any increase or decrease in the valuation allowance could have the effect of increasing or decreasing the income tax provision in the statement of operations.

The net change in valuation allowance was a $1.0 million decrease and a $5.1 million increase during the years ended December 31, 2011 and 2010, respectively. The 2011 net decrease in valuation allowance is caused primarily by an increase in deferred tax assets related to pre-acquisition foreign net operating losses that the Company placed a valuation allowance on because it is not more likely than not that the Company can benefit these deferred tax assets in the future, netted with the valuation allowance release on U.S. deferred tax assets.

The Company's United States federal net operating loss carryforwards totaled $80.7 million and $84.0 million at December 31, 2011 and 2010, respectively. These net operating loss carryforwards begin to expire between 2012 and 2032. In 2011, the remaining net operating loss carryforwards are from the U.S. taxable losses in 2010 and 2011 and acquired subsidiaries that are limited under Internal Revenue Code Section 382. The Company's United States federal research and development tax credit carryforward totaled $21.5 million and $21.0 million at December 31, 2011 and 2010. The research and development credit carryforwards expire between 2020 and 2031. The Company's alternative minimum tax credit carryforward totaled $3.1 million at both December 31, 2011 and December 31, 2010, and can be carried forward indefinitely.

REALNETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In the fourth quarter of 2011, the Company received a cash payment of approximately $8.6 million and in the third quarter of 2010 received a cash payment of approximately $29.5 million, as the result of a refund of U.S. federal taxes previously paid. Of the 2011 amount, $2.5 million is related to the 2008 amended tax return that was filed as a result of the 2005 to 2007 Internal Revenue Service (IRS) examination related primarily to allowed deductions and taxes on foreign sales associated with the Company's 2005 antitrust settlement with Microsoft Corporation. The remaining $6.1 million in refunds were related to net operating loss carryback and prior year tax overpayments. The Company recorded the related income tax benefit and tax receivable for both the 2011 and 2010 refunds in it is consolidated financial statements for the year ended December 31, 2010.

The Company recognizes tax liabilities in accordance with FASB ASC 740 (previously FIN No. 48, *Accounting for Uncertainty in Income Taxes*), which clarifies the accounting for uncertainty in income taxes recognized in the financial statements. This pronouncement prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in the Company's tax returns. As of December 31, 2011 and December 31, 2010, the Company had $16.7 million and $14.0 million of unrecognized tax benefits, respectively. Of the increase, $3.0 million is due to transfer pricing risk in foreign jurisdictions and $0.5 million is related to other prior year positions, partially offset by a decrease of $0.8 million related to the closure of a foreign subsidiary which had reserves related to transfer pricing and the expiration of the statute of limitations on state tax returns. The total amount of unrecognized tax benefits that would affect the Company's effective tax rate if recognized is $13.5 million as of December 31, 2011 and $11.0 million as of December 31, 2010.

The Company elected to recognize accrued interest and penalties related to uncertain tax positions as a component of income tax expense. As of December 31, 2011 and December 31, 2010, the Company had approximately $0.8 million and $0.7 million of accrued interest and penalties related to uncertain tax positions, respectively. To the extent interest and penalties are not assessed with respect to uncertain tax positions, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision. We currently anticipate the closure of foreign income tax examinations in the next twelve months that may decrease the Company's total unrecognized tax benefits by an amount up to $12.0 million as a result of the successful defense of the Company's positions, the settlement and payment of a liability, or a combination thereof. Additionally, the Company anticipates that its total unrecognized tax benefits may increase by an amount up to $2.7 million as a result of a potential transfer pricing change.

A reconciliation of the beginning and ending balances of the total amounts of unrecognized tax benefits is as follows (in thousands):

	Years Ended December 31,		
	2011	2010	2009
Balance, beginning of year	$14,033	$ 59,826	$10,455
Increases related to prior year tax positions	—	130	—
Decreases related to prior year tax positions	(768)	(57,234)	(820)
Increases related to current year tax positions	3,518	11,311	50,191
Expiration of the statute of limitations	(62)	—	—
Balance, end of year	$16,721	$ 14,033	$59,826

Note 15. Commitments and Contingencies

Commitments. The Company has commitments for future payments related to office facilities leases and other contractual obligations. The Company leases office facilities under various operating leases expiring through 2019. The Company also has other contractual obligations, primarily relating to minimum contractual payments due to content and other service providers, expiring over varying time periods in the future. Future minimum payments are as follows (in thousands):

	Office Leases	Other Contractual Obligations	Total
2012	$10,358	$ 88	$10,446
2013	10,250	88	10,338
2014	8,518	—	8,518
2015	2,149	—	2,149
2016	1,479	—	1,479
Thereafter	967	—	967
Total minimum payments	$33,721	$ 176	$33,897

Of the total office lease future minimum payments, $3.4 million is recorded in accrued loss on excess office facilities at December 31, 2011.

Rent expense during the years ended December 31, 2011, 2010, and 2009, was $9.2 million, $10.6 million, and $12.3 million, respectively.

REALNETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Borrowing Arrangements. The Company's subsidiary, WiderThan, has entered into lines of credit with a Korean domestic bank with an aggregate maximum available limit of $0.9 million at interest rates of approximately 6% over the rate earned on the underlying deposits. During the years ended December 31, 2011 and 2010, WiderThan did not draw on the line of credit and there was no balance outstanding as of December 31, 2011 or December 31, 2010.

The Company's subsidiary, WiderThan, uses electronic promissory notes issued by a Korean domestic bank with an aggregate line of credit of up to $2.2 million. The charged amounts are generally payable in the following month depending on the billing cycle and are included in accounts payable in the consolidated balance sheets. In general, the term of the arrangement is one year, with renewal in April of each year. The arrangement may be renewed in writing by mutual agreement between WiderThan and the bank. WiderThan is not subject to any financial or other restrictive covenants under the terms of this arrangement. As of December 31, 2011, the Company had $0.4 million outstanding on this promissory note and other guarantees.

401(k) Retirement Savings Plan. The Company has a salary deferral plan (401(k) Plan) that covers substantially all employees. Under the plan, eligible employees may contribute up to 50% of their pretax salary, subject to the Internal Revenue Service annual contribution limits. During the years ended December 31, 2011, 2010, and 2009, the Company matched 50% of employee contributions to the 401(k) Plan, on up to three percent of participating employees' compensation, and contributed $1.1 million, $1.4 million, and $1.4 million, respectively, in matching contributions. The Company can terminate the matching contributions at its discretion. The Company has no other post-employment or post-retirement benefit plans.

Litigation . On November 1, 2011, a lawsuit was filed by Callertone Innovations, LLC ("Callertone") against MetroPCS Wireless, Inc. and MetroPCS Communications, Inc., (collectively, "MetroPCS") in the U.S. District Court for the District of Delaware alleging that MetroPCS infringes Callertone's patents by providing ringback tone services. The Company agreed to indemnify MetroPCS against the claims based on an indemnity that is claimed to be owed by the Company. The complaint was served on MetroPCS on January 14, 2012, and the Company is currently preparing its answer. The Company disputes the plaintiff's allegations regarding both the validity of its patents and its claims of infringement against MetroPCS. The Company is unable to provide meaningful quantification of how the final resolution of this litigation may impact its future consolidated financial statements.

On October 28, 2011, a lawsuit was filed by Callertone Innovations, LLC ("Callertone") against T-Mobile USA, Inc. ("T-Mobile") in the U.S. District Court for the District of Delaware alleging that T-Mobile infringes Callertone's patents by providing ringback tone services. The Company agreed to indemnify T-Mobile against the claims based on an indemnity that is claimed to be owed by the Company. The complaint was served on T-Mobile on January 16, 2012, and the Company is currently preparing its answer. The Company disputes the plaintiff's allegations regarding both the validity of its patents and its claims of infringement against T-Mobile. The Company is unable to provide meaningful quantification of how the final resolution of this litigation may impact its future consolidated financial statements.

In July 2010, the Washington State Office of the Attorney General (Washington AG) sent a letter referencing complaints from consumers relating to RealNetworks' various consumer products since 2005. The letter advised the Company that it may be violating Washington State's consumer protection laws, and invited the Company to consider changing certain of its consumer practices. The Company subsequently met with representatives of the Washington AG to review and discuss the complaints and, although the Company did not believe that its practices violated the law, it voluntarily made changes to certain of its online order paths through which consumers purchase the Company's subscription products in order to address certain of the Washington AG's concerns.

Notwithstanding the foregoing, in March and September 2011, the Consumer Protection Division of the Washington AG issued civil investigative demands to the Company requesting information and documents relating to certain of the Company's consumer marketing practices during the period from 2005 to 2011. The Company is cooperating and is in discussions with the Washington AG regarding the investigation, and has begun to respond to the Washington AG's requests. The Washington AG has not initiated any enforcement action against the Company. The Company does not believe it has violated any laws, but cannot predict the outcome of the investigation at this time, including whether the investigation will result in significant expenses, monetary damages, penalties or injunctive relief that would reduce the Company's cash flows or harm its business. The Company is unable to provide meaningful quantification of how or if the final resolution of this investigation would impact its future consolidated financial statements.

On September 30, 2008, the Company filed a declaratory action against Disney Enterprises, Inc., Paramount Pictures Corp., Sony Pictures Entertainment, Inc., Twentieth Century Fox Film Corp., NBC Universal, Inc., Warner Bros. Entertainment, Inc., Viacom, Inc. (collectively, the "Studios") and the DVD Copy Control Association (DVD CCA) in the U.S. District Court for the Northern District of California relating to the Company's RealDVD product (the "RealDVD Litigation"), which, among other things, allows consumers to securely store DVD content on their hard drives. On the same day, various movie studios filed suit against the Company that alleged, among other things, that by offering the RealDVD product, the Company has violated the Digital Millennium Copyright Act and sought to enjoin the sale or distribution of the RealDVD product. In May 2009, the Company moved to amend its complaint against the Studios to add claims that the Studios and DVD CCA conspired to violate, and have violated, state and federal antitrust laws by, among other things, unlawfully eliminating competition in the market for technology that enables a consumer to make a lawful, secure backup copy of a DVD and made similar counterclaims against the DVD CCA. On August 11, 2009, the court in the Northern District of California granted the movie studios' motion for preliminary injunction, which enjoined the Company from selling or otherwise distributing RealDVD to the public, which the Company appealed to the U.S. Court of Appeals for the Ninth Circuit. On March 1, 2010, the Company entered into a settlement agreement with the Studios and related entities as well as the DVD CCA with respect to the RealDVD Litigation. Under the terms of the settlement agreement, the Company is obligated to pay $4.5 million to the Studios for the Studios' fees and costs in connection with the RealDVD Litigation. In addition, the Company agreed to the terms of a consent judgment, as entered by the District Court in the Northern District of California on March 3, 2010, which, among other things, permanently enjoins the Company from distributing or offering RealDVD or any other technology, product, service or device that enables the duplication of, redistribution of, or unauthorized access to, copyrighted content protected by the Content Scramble System or technologies known as ARccOS or RipGuard. All claims and counterclaims in the RealDVD Litigation, including the Company's claims of breach of federal antitrust laws against the Studios, were either resolved by the consent judgment or dismissed with prejudice, and the Company withdrew its appeal to the U.S. Court of Appeals for the Ninth Circuit relating to the preliminary injunction. The Company's payment obligation under the settlement agreement is reflected in the Company's consolidated financial statements for the year ended December 31, 2009.

REALNETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

On April 25, 2007, a lawsuit was filed by Greenville Communications, LLC in Greenville, Mississippi against a number of cell phone carriers, including the Company's partners T-Mobile USA, Inc. and Alltel Corporation, alleging that they infringe its patents by providing ringback tone services. The Company agreed to indemnify T-Mobile and Alltel against the claims based on an indemnity that is claimed to be owed by the Company. On August 27, 2007, the Company's motion to transfer this matter to the U.S. District Court for the District of New Jersey was granted. The parties briefed claim construction, but the case was subsequently stayed pending reexamination of the patents at issue. On December 10, 2009, the U.S. Patent and Trademark Office issued notice of its intent to issue reexamination certificates for the patents in suit. The District Court lifted the stay on the litigation on January 29, 2010 and discovery has resumed. On September 28, 2011, the District Court held a claims construction hearing but has not yet issued a ruling. The Company disputes the plaintiff's allegations regarding both the validity of its patents and its claims of infringement against the Company's partners. The Company is unable to quantify in a meaningful way the potential impact of the final resolution of this litigation on the Company's future consolidated financial statements.

The Company has also been involved in a proceeding in the U.S. District Court for the Southern District of New York to determine a royalty rate for the public performance of music contained in the American Society of Composers, Authors and Publishers (ASCAP) catalogue. In April 2008, the district court issued a preliminary ruling that sets forth, among other things, a methodology to be used to calculate the royalties owed to ASCAP and subsequently issued additional rulings. After working with ASCAP to make a final determination of amounts due under the court's rulings, the Company reached a partial agreement with ASCAP on January 12, 2009. The Company believes it has sufficiently accrued for expected royalties under the agreement, but the Company appealed some aspects of the court's rulings that underlie the agreement, arguing that the district court had adopted an improper formula for establishing royalty rates. ASCAP also appealed the district court's ruling, arguing that the district court should have ruled that all transmissions of content downloads constituted public performances. On September 28, 2010, the U.S. Court of Appeals for the Second Circuit issued an opinion substantially ruling in favor of each of the Company's positions that were on appeal. On the public performance issue, the Second Circuit ruled that delivering a download is neither a "performance" nor "public," and therefore ASCAP is not entitled to any royalties for such downloads. The Second Circuit agreed with the Company that the formula adopted by the District Court for establishing royalties was unreasonable and unsupported, and directed the District Court to establish new rates that reflect the "varying nature and scope" of the Company's music use. These rates are relevant to the Company's operation of the Rhapsody music business prior to the completion of its restructuring at the end of the first quarter of 2010. The rates are also relevant to the ongoing business of Rhapsody in which the Company continues to hold an approximate 47% interest. The case was remanded to the District Court for a new trial to re-determine royalty rates, but on September 29, 2011, the Company, Rhapsody and ASCAP finalized the terms of a settlement agreement. Under the terms of the settlement, the Company owes ASCAP no further payments for performances of ASCAP music during the applicable time period.

From time to time the Company is, and expects to continue to be, subject to legal proceedings, governmental investigations and claims in the ordinary course of business, including employment claims, contract-related claims, and claims of alleged infringement of third-party patents, trademarks and other intellectual property rights. These claims, including those described above, even if not meritorious, could force the Company to spend significant financial and managerial resources. The Company is not aware of any other legal proceedings or claims that the Company believes will have, individually or taken together, a material adverse effect on the Company's business, prospects, financial condition or results of operations. However, the Company may incur substantial expenses in defending against third-party claims. In addition, given the broad distribution of some of the Company's consumer products, any individual claim related to those products could give rise to liabilities that may be material to the Company. In the event of a determination adverse to the Company, the Company may incur substantial monetary liability, and/or be required to change its business practices. Either of these could have a material adverse effect on the Company's consolidated financial statements.

Note 16. Guarantees

In the ordinary course of business, the Company is not subject to potential obligations under guarantees that fall within the scope of ASC 460 — *Guarantees* (ASC 460), except for standard indemnification and warranty provisions that are contained within many of the Company's customer license and service agreements, and give rise only to the disclosure requirements prescribed by ASC 460.

Indemnification and warranty provisions contained within the Company's customer license and service agreements are generally consistent with those prevalent in the Company's industry. The duration of the Company's product warranties generally does not exceed 90 days following delivery of the Company's products. The Company has not incurred significant obligations under customer indemnification or warranty provisions historically and does not expect to incur significant obligations in the future. Accordingly, the Company does not maintain accruals for potential customer indemnification or warranty-related obligations.

Note 17. Segment Information

As of July 1, 2010, the Company reorganized the management of its product lines and businesses in order to more efficiently develop and sell its products, and more cost effectively manage its operations. Since the quarter ended September 30, 2010, the Company's financial results have reflected the new corporate organization with the following reporting segments: (1) Core Products, which includes financial results from existing and future software as a service offerings of ringback tones, music on demand, video on demand, storefront services and inter-carrier messaging; systems integration and professional services; Helix software and licenses for

REALNETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

handsets; SuperPass; and the Company's international radio subscriptions; (2) Emerging Products, which includes financial results from RealPlayer, including distribution of third-party products, advertising and other revenue, and new products and services that will be introduced over time for consumers or enterprise customers; and (3) Games, which was unchanged and includes all games-related financial results, including game sales, subscriptions services, syndication services, advertising-supported games, and mobile and social games. In addition, the Company continues to present financial results for its former Music segment on a historical basis only. The Music segment primarily included financial results and operating performance of the Company's Rhapsody joint venture, which was restructured as of March 31, 2010. As a result of the restructuring, Rhapsody's results are not consolidated with the Company's financial statements for periods after March 31, 2010. The Company reports its share of Rhapsody's income or losses as "Equity in net loss of Rhapsody and other equity method investments" in "Other income." The Company reflected the reorganization of its segments for periods prior to September 30, 2010, to allow for comparability between the periods.

Beginning with the third quarter of 2010, the Company also changed how it allocates corporate and shared overhead expenses. Previously, RealNetworks allocated common corporate overhead expenses, including but not limited to finance, legal and headquarters facilities, to each business segment. Beginning in the quarter ended September 30, 2010, these shared expenses, as well as stock compensation costs, are shown in the aggregate as "Corporate" expenses and are not reflected in segment results for the business segments described in the preceding paragraph. Only direct business segment expenses, such as research and development, marketing and certain other business shared services, are reflected in the associated business segment results. The changes in the allocation of corporate expenses was designed to help ensure that business segment results reflect only those items that are directly attributable to that segment's performance and that shared overhead expenses are centrally managed to promote focus on and accountability for the overall corporate cost structure.

The Company reports three reporting segments based on factors such as how the Company manages its operations and how its Chief Operating Decision Maker reviews results. The Company's Chief Operating Decision Maker is considered to be the Company's CEO Staff (CEOS), which includes the Company's Chief Executive Officer, Chief Financial Officer, Executive Vice President, Chief Legal Officer and certain Senior Vice Presidents. The CEOS reviews financial information presented on both a consolidated basis and on a business segment basis, accompanied by certain disaggregated information about products and services, geographical regions and corporate expenses for purposes of making decisions and assessing financial performance. The CEOS reviews discrete financial information regarding profitability of the Company's Core Products, Emerging Products, Games, and, prior to April 1, 2010, Music segments and, therefore, the Company reports these as operating segments. The accounting policies used to derive segment results are generally the same as those described in Note 1, *Description of Business and Summary of Significant Accounting Policies* .

Segment operating income (loss) before income taxes for the years ended December 31, 2011, 2010 and 2009, respectively is as follows:

Core Products

	2011	2010	2009	2011-2010 Change	% Change	2010-2009 Change	% Change
Revenue	$191,240	$212,845	$233,365	$(21,605)	(10)%	$(20,520)	(9)%
Cost of revenue	83,696	83,733	81,774	(37)	(0)%	1,959	2%
Impairment of deferred costs	19,329	—	—	19,329	100%	—	—
Gross profit	88,215	129,112	151,591	(40,897)	(32)%	(22,479)	(15)%
Operating expenses	75,188	86,217	138,502	(11,029)	(13)%	(52,285)	(38)%
Operating income	$ 13,027	$ 42,895	$ 13,089	$(29,868)	(70)%	$ 29,806	228%

Emerging Products

	2011	2010	2009	2011-2010 Change	% Change	2010-2009 Change	% Change
Revenue	$46,590	$41,761	$ 45,207	$ 4,829	12%	$ (3,446)	(8)%
Cost of revenue	11,879	7,123	6,884	4,756	67%	239	3%
Impairment of deferred costs	633	—	—	633	100%	—	—
Gross profit	34,078	34,638	38,323	(560)	(2)%	(3,685)	(10)%
Operating expenses	36,011	28,053	73,211	7,958	28%	(45,158)	(62)%
Operating income (loss)	$ (1,933)	$ 6,585	$(34,888)	$ (8,518)	(129)%	$ 41,473	119%

REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Games

	2011	2010	2009	2011-2010 Change	% Change	2010-2009 Change	% Change
Total revenue	$97,856	$111,394	$122,824	$(13,538)	(12)%	$(11,430)	(9)%
Cost of revenue	30,646	29,071	32,862	1,575	5%	(3,791)	(12)%
Gross profit	67,210	82,323	89,962	(15,113)	(18)%	(7,639)	(8)%
Operating expenses	60,633	78,275	127,908	(17,642)	(23)%	(49,633)	(39)%
Operating income (loss)	$ 6,577	$ 4,048	$ (37,946)	$ 2,529	63%	$ 41,994	111%

REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Music

	2011	2010	2009	2011-2010 Change	% Change	2010-2009 Change	% Change
Total revenue	$—	$35,733	$160,868	$(35,733)	(100)%	$(125,135)	(78)%
Cost of revenue	—	21,864	98,322	(21,864)	(100)%	(76,458)	(78)%
Gross profit	—	13,869	62,546	(13,869)	(100)%	(48,677)	(78)%
Total operating expenses	—	13,911	129,085	(13,911)	(100)%	(115,174)	(89)%
Operating income (loss)	$—	$ (42)	$ (66,539)	$ 42	100%	$ 66,497	100%

Corporate

	2011	2010	2009	2011-2010 Change	% Change	2010-2009 Change	% Change
Cost of revenue	$ 416	$ 2,932	$ 2,300	$ (2,516)	(86)%	$ 632	27%
Total operating expenses	54,865	85,081	108,654	(30,216)	(36)%	(23,573)	(22)%
Operating loss	$(55,281)	$(88,013)	$(110,954)	$ 32,732	37%	$ 22,941	21%

The Company's customers consist primarily of consumers and corporations located in the U.S., Europe, and various foreign countries. Revenue by geographic region is as follows (in thousands):

	Years Ended December 31, 2011	2010	2009
United States	$162,720	$227,823	$374,283
Europe	74,602	79,820	96,146
Rest of the World	98,364	94,090	91,835
Total	$335,686	$401,733	$562,264

Long-lived assets, consisting of equipment, software, leasehold improvements, other intangible assets, and goodwill by geographic region are as follows (in thousands):

	December 31, 2011	2010
United States	$38,543	$43,655
Republic of Korea	4,063	5,659
Europe	2,949	3,069
Rest of the World	5,286	2,900
Total long-lived assets	$50,841	$55,283

Net assets including minority interest by geographic location are as follows (in thousands):

	December 31, 2011	2010
United States	$225,271	$352,341
Republic of Korea	1,903	12,374
Europe	30,130	33,029
Rest of the World	13,983	15,001
Total	$271,287	$412,745

Note 18. Related Party Transactions

Transactions with MTVN. As part of the initial formation of Rhapsody in 2007, MTVN contributed a $230 million five-year note payable in partial consideration for acquiring MTVN's interest in the venture. In February 2009, RealNetworks and MTVN signed an amendment to the Rhapsody joint venture agreement which reduced the amount payable under the MTVN note to $213.8 million over the original five-year term and on March 31, 2010, the note was cancelled in connection with the completion of the Rhapsody restructuring transactions. During the year ended December 31, 2010, Rhapsody received $1.2 million in cash as note payments and spent $1.1 million in advertising with MTVN. During the year ended December 31, 2009, Rhapsody received $33.0 million in cash as note payments and spent $33.3 million in advertising with MTVN. MTVN agreed to a new $33 million

REALNETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

marketing commitment as part of the restructuring transactions that were completed on March 31, 2010. RealNetworks no longer consolidates Rhapsody's financial position and results, and consequently these transactions are no longer considered related party transactions. See Note 3, Rhapsody Joint Venture, for more information on the restructuring transactions.

Transactions with Rhapsody . For periods between August 2007 and March 31, 2010, the Company also provided various support services, including items such as facilities, information technology systems, personnel support and some overhead charges, associated with the support services, directly to Rhapsody. The allocation of these and other support service costs were based on various measures depending on the service provided, including employee headcount, time employees spend on providing services to Rhapsody, server usage or number of users of a service. The allocations of these costs were billed directly to Rhapsody. Prior to March 31, 2010, the Company treated these allocations as intercompany transactions and all such transactions were eliminated in consolidation. As of March 31, 2010, the Company no longer consolidates these transactions.

Following the restructuring transactions, the Company is obligated to provide Rhapsody with a reduced amount of support services unless earlier terminated by Rhapsody. These support services are expected to be completed in the first half of 2012 unless earlier terminated by Rhapsody. The support services include information technology and limited operational support provided directly to Rhapsody. The amount of these and other support service costs were based on various measures depending on the service provided, including vendor fees, an allocation of fixed costs and time employees spend on providing services to Rhapsody. RealNetworks allocates the cost of providing these support services and records such allocation as a reduction to the related expense in the period for which it was incurred. During the years ended December 31, 2011 and 2010, the Company charged Rhapsody $2.2 million and $3.2 million, respectively, for the support services.

Transactions with LoEn Entertainment, Inc. During the fourth quarter of 2008, the Company paid $9.9 million to acquire approximately 11% of the outstanding shares of LoEn Entertainment, Inc. (LoEn). The Company paid market price for approximately 2.8 million common shares of LoEn which are traded on the Korean Securities Dealers Automated Quotations. The Company's investment in LoEn is treated as an equity investment of a public company and is marked-to-market each period with resulting gains or losses recognized in accumulated other comprehensive loss as unrealized holding gains/losses on investment. During the years ended December 31, 2011, 2010, and 2009 the Company recorded revenue from LoEn of approximately $20.3 million, $18.0 million and $13.5 million, respectively. This revenue consisted primarily of sales of application service provider services, which include sales of ringback tones, music-on-demand, video-on-demand, and inter-carrier messaging services. Associated with these transactions, the Company also recorded accounts receivable of approximately $2.1 million and $3.2 million as of December 31, 2011 and 2010, respectively. Accounts payable and cost of revenue balances associated with LoEn as of and for the years ended December 31, 2011 and 2010 were nominal.

Note 19. Subsequent Event

On January 26, 2012, the Company entered into an asset purchase agreement with Intel Corporation pursuant to which the Company will sell substantially all of its patent assets and related rights held by the Company and its next generation video codec technology for $120.0 million and the assumption of certain liabilities, subject to potential adjustments. In connection with the transaction, the Company also entered into a license agreement with Intel pursuant to which the Company will obtain a non-exclusive, royalty-free, fully paid up, irrevocable and worldwide license to use the patents assets the Company will sell to Intel in connection with the Company's businesses. The consummation of these transactions is subject to closing conditions and is expected to close in the first quarter of 2012.

REALNETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 20. Quarterly Information (Unaudited)

The following table summarizes the unaudited statement of operations for each quarter of 2011 and 2010 (in thousands, except per share data):

	Total	Dec. 31 (2)	Sept. 30 (4)	June 30	Mar. 31 (3)
2011:					
Net revenue	$335,686	$ 80,219	$ 84,414	$ 83,752	$ 87,301
Gross profit	189,087	28,168	52,598	53,086	55,235
Operating (loss) income	(37,610)	(23,677)	(3,483)	(4,784)	(5,666)
Net income (loss) attributable to common shareholders	(27,100)	(2,764)	(5,182)	(6,849)	(12,305)
Basic net income (loss) per share available to common shareholders(1)	(0.79)	(0.08)	(0.15)	(0.20)	(0.36)
Diluted net income (loss) per share available to common shareholders(1)	(0.79)	(0.08)	(0.15)	(0.20)	(0.36)
2010:					
Net revenue	$401,733	$ 97,817	$ 86,432	$ 88,884	$128,600
Gross profit	257,010	62,112	55,722	59,735	79,441
Operating (loss) income	(34,527)	5,979	(4,150)	(21,694)	(14,662)
Net income (loss) attributable to common shareholders	5,038	3,194	24,523	(25,907)	3,228
Basic net income (loss) per share available to common shareholders(1)	0.26	0.09	0.72	(0.77)	0.21
Diluted net income (loss) per share available to common shareholders(1)	0.26	0.09	0.71	(0.77)	0.20

(1) The sum of the quarterly net income per share will not necessarily equal the net income per share for the year due to the use of weighted average quarterly shares and the effects of rounding.

(2) The quarter ended December 31, 2011 included impairments of deferred costs of $20.0 million, described more fully in Note 7, Deferred Costs, and an income tax benefit of $22.6 million resulting from a release of a portion of the valuation allowance, as described more fully in Note 14, Income Taxes.

(3) The quarter ended March 31, 2010 included a one-time net gain on deconsolidation of Rhapsody of $10.9 million which was recorded in other income and expense, net. This item is described more fully in Note 3, Rhapsody Joint Venture.

(4) The Company received a cash payment of approximately $29.5 million in the quarter ended September 30, 2010 as a result of a refund of federal taxes previously paid. The Company recorded the cash proceeds from the refund as an income tax benefit in its statement of operations and recognized other income tax benefits related to this matter, including the reversal of a liability for uncertain tax positions, in the quarter ended September 30, 2010.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
RealNetworks, Inc.:

We have audited the accompanying consolidated balance sheets of RealNetworks, Inc. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity and noncontrolling interest, and cash flows for each of the years in the three-year period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of RealNetworks, Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011 in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), RealNetworks, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 29, 2012 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Seattle, Washington
February 29, 2012

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
RealNetworks, Inc.:

We have audited RealNetworks, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). RealNetworks, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, RealNetworks, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of RealNetworks, Inc. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity and noncontrolling interest, and cash flows for each of the years in the three-year period ended December 31, 2011, and our report dated February 29, 2012 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Seattle, Washington
February 29, 2012

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

Not applicable.

Item 9A. *Controls and Procedures*

Disclosure Controls and Procedures

Our management, with the participation of the principal executive officer and principal financial officer, has evaluated the effectiveness of our "disclosure controls and procedures" (as such term is defined under Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act)). Based on their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that we file or submit under the Exchange Act (1) is recorded, processed, summarized, and reported within the time period specified in the Securities and Exchange Commission rules and forms and (2) is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation, our management concluded that, as of December 31, 2011 RealNetworks maintained effective internal control over financial reporting.

KPMG LLP, an independent registered public accounting firm, has issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2011. This attestation is included within Item 8.

Changes in Internal Control over Financial Reporting

Our management, with the participation of the principal executive officer and principal financial officer, has evaluated the changes to our internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2011 as required by paragraph (d) of Rules 13a-15 and 15d-15 of the Exchange Act and has concluded that there were no such changes that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. *Other Information*

None.

PART III.

Item 10. *Directors, Executive Officers and Corporate Governance*

The information required by this Item is incorporated by reference to the information contained in part in the sections captioned "Election of Director(s)-Nominee(s) for Director," "Board of Directors-Continuing Directors-Not Standing for Election This Year," "Board of Directors-Committees of the Board," "Board of Directors-Code of Business Conduct and Ethics" and "Voting Securities and Principal Holders-Section 16(a) Beneficial Ownership Reporting Compliance" of the Proxy Statement relating to RealNetworks' 2012 Annual Meeting of Shareholders or in an amendment to this Form 10-K, to be filed with the Securities and Exchange Commission within 120 days after the fiscal year ended December 31, 2011.

The remaining information required by this Item is set forth in Part I of this report under the caption "Executive Officers of the Registrant."

Item 11. *Executive Compensation*

The information required by this Item is incorporated by reference to the information contained in the section captioned "Executive Compensation" of the Proxy Statement relating to RealNetworks' 2012 Annual Meeting of Shareholders or in an amendment to this Form 10-K, to be filed with the Securities and Exchange Commission within 120 days after the fiscal year ended December 31, 2011.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters*

The information required by this Item is incorporated by reference to the information contained in the section captioned "Voting Securities and Principal Holders" of the Proxy Statement relating to RealNetworks' 2012 Annual Meeting of Shareholders or in an amendment to this Form 10-K, to be filed with the Securities and Exchange Commission within 120 days after the fiscal year ended December 31, 2011.

Equity Compensation Plans

As of December 31, 2011, we had awards outstanding under five equity compensation plans. These plans include the RealNetworks, Inc. 1995 Stock Option Plan (1995 Plan), the RealNetworks, Inc. 1996 Stock Option Plan, as amended and restated (1996 Plan), the RealNetworks, Inc. 2000 Stock Option Plan, as amended and restated (2000 Plan), the RealNetworks, Inc. 2005 Stock Incentive Plan, as amended and restated (2005 Plan), and the RealNetworks, Inc. 2002 Director Stock Option Plan (2002 Plan). In addition, we maintain the RealNetworks, Inc. 2007 Employee Stock Purchase Plan, as amended and restated October 2010 (2007 ESPP). The 1995 Plan, 1996 Plan, 2002 Plan, 2005 Plan and 2007 ESPP have been approved by our shareholders. The 2000 Plan has not been approved by our shareholders.

In 2005, our shareholders approved the 2005 Plan and upon this approval of the 2005 Plan, we terminated the 1995 Plan, the 1996 Plan, the 2000 Plan and the 2002 Plan. In 2007, our shareholders approved an amended and restated 2005 Plan, and upon this approval, we terminated the RealNetworks, Inc. Director Compensation Stock Plan. As a result of the termination of these Plans, all new equity awards will be issued under the 2005 Plan. In 2007, our shareholders also approved the 2007 ESPP.

The following table aggregates the data from our plans and reflects adjustments resulting from our special cash dividend paid in August 2011 and the one-for-four reverse stock split effective in August 2011:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (in 000's)(a)	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (in 000's)(c)
Equity compensation plans approved by security holders	6,822	$ 14.24	4,809(1)(2)
Equity compensation plans not approved by security holders	5	28.82	—
Total	6,827	$ 14.24	4,809

(1) On January 1, 2008, the 2007 ESPP became effective. Column (c) above excludes an aggregate of 1.1 million shares of the Company's common stock that are authorized for issuance pursuant to the 2007 ESPP.

(2) Includes shares available for future issuances pursuant to the RealNetworks, Inc. 2007 Director Compensation Stock Plan (2007 Director Plan), a sub-plan that operates and is administered under the 2005 Plan. Under the 2007 Director Plan, outside directors may elect to receive all or a portion of his or her quarterly director compensation in shares of the Company's common stock in lieu of cash. Shares issued to directors under the 2007 Director Plan are issued from the shares reserved under the 2005 Plan.

Equity Compensation Plans Not Approved By Security Holders. The Board of Directors adopted the 2000 Plan to enable the grant of nonqualified stock options to employees and consultants of RealNetworks and its subsidiaries who are not otherwise officers or directors of RealNetworks. The 2000 Plan has not been approved by RealNetworks' shareholders. The Compensation Committee of the Board of Directors is the administrator of the 2000 Plan, and as such determines all matters relating to options granted under the 2000 Plan. Nonqualified stock options granted pursuant to the 2000 Plan were granted with exercise prices equal to the fair market value of RealNetworks' common stock on the date of grant and typically vest over five years as determined by the Compensation Committee or pursuant to delegated authority as provided in the 2000 Plan. In June 2005, the 2000 Plan was terminated and the remaining available shares were transferred to the 2005 Plan.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this Item is incorporated by reference to the information contained in the section captioned "Executive Compensation-Policies and Procedures with Respect to Related Person Transactions," "Executive Compensation-Certain Relationships and Related Transactions" and "Election of Directors-Director Independence" of the Proxy Statement relating to RealNetworks' 2012 Annual Meeting of Shareholders or in an amendment to this Form 10-K, to be filed with the Securities and Exchange Commission within 120 days after the fiscal year ended December 31, 2011.

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Item 14. ***Principal Accountant Fees and Services***

The information required by this Item is incorporated by reference to the information contained in the section captioned "Ratification of Appointment of Independent Registered Public Accounting Firm-Fees Billed by KPMG LLP During 2010 and 2011" and "Ratification of Appointment of Independent Registered Public Accounting Firm-Pre-Approval Policies and Procedures" of the Proxy Statement relating to RealNetworks' 2012 Annual Meeting of Shareholders or in an amendment to this Form 10-K, to be filed with the Securities and Exchange Commission within 120 days after the fiscal year ended December 31, 2011.

PART IV.

Item 15. ***Exhibits and Financial Statement Schedules***

(a)(1) **Index to Consolidated Financial Statements**

The following consolidated financial statements of RealNetworks, Inc. and subsidiaries are filed as part of this report:

Consolidated Balance Sheets — December 31, 2011 and 2010

Consolidated Statements of Operations and Comprehensive Income (Loss) — Years Ended December 31, 2011, 2010, and 2009

Consolidated Statements of Cash Flows — Years Ended December 31, 2011, 2010, and 2009

Consolidated Statements of Shareholders' Equity and Noncontrolling Interest — Years Ended December 31, 2011, 2010, and 2009

Notes to Consolidated Financial Statements

Reports of Independent Registered Public Accounting Firm

(a)(2) **Financial Statement Schedules**

All financial statement schedules have been omitted since they are either not required, not applicable, or because the information required is included in the consolidated financial statements or the notes thereto.

(a)(3) **Index to Exhibits**

Exhibit Number	Description
2.1	Transaction, Contribution and Purchase Agreement dated as of February 9, 2010 among Rhapsody America LLC, RealNetworks, Inc., RealNetworks Digital Music of California, Inc., Viacom International Inc. and DMS Holdco Inc. (incorporated by reference from Exhibit 2.1 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on April 6, 2010)
2.2	Combination Agreement by and among RealNetworks, Inc., RN International Holdings B.V. and WiderThan Co., Ltd. dated as of September 12, 2006 (incorporated by reference from Exhibit 2.1 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on September 14, 2006)
2.3*	Asset Purchase Agreement, dated as of January 26, 2012, by and between RealNetworks, Inc. and Intel Corporation (incorporated by reference from Exhibit 2.1 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2012). Certain schedules and exhibits referenced in the Asset Purchase Agreement have been omitted in accordance with Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request.
3.1	Amended and Restated Articles of Incorporation (incorporated by reference from Exhibit 3.1 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000 filed with the Securities and Exchange Commission on August 11, 2000)
3.2	Articles of Amendment to the Amended and Restated Articles of Incorporation of RealNetworks, Inc. (incorporated by reference from Exhibit 3.1 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on August 31, 2011)
3.3	Amended and Restated Bylaws effective July 23, 2010 (incorporated by reference from Exhibit 3.1 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on July 29, 2010)
4.1	Amended and Restated Shareholder Rights Plan dated as of December 2, 2008, by and between RealNetworks, Inc. and Mellon Investor Services LLC including the form of Certificate of Designation, the form of Rights Certificate and the Summary of Rights attached thereto as Exhibits A, B and C, respectively (incorporated by reference from Exhibit 4.1 to RealNetworks' Form 8-K filed with the Securities and Exchange Commission on December 3, 2008)
10.1†	RealNetworks, Inc. 1995 Stock Option Plan (incorporated by reference from Exhibit 99.1 to RealNetworks' Registration Statement on Form S-8 filed with the Securities and Exchange Commission on September 14, 1998)
10.2†	RealNetworks, Inc. 1996 Stock Option Plan, as amended and restated on June 1, 2001 (incorporated by reference from Exhibit 10.1 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001 filed with the Securities and Exchange Commission on August 13, 2001)
10.3†	Amendment No. 1 to the RealNetworks, Inc. 1996 Stock Option Plan, as amended and restated on June 1, 2001 (incorporated by reference from Exhibit 10.3 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on December 21, 2009)

10.4†	RealNetworks, Inc. 2000 Stock Option Plan, as amended and restated on June 1, 2001 (incorporated by reference from Exhibit 10.2 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001 filed with the Securities and Exchange Commission on August 13, 2001)
10.5†	Amendment No. 1 to the RealNetworks, Inc. 2000 Stock Option Plan, as amended and restated on June 1, 2001 (incorporated by reference from Exhibit 10.2 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on December 21, 2009)
10.6†	RealNetworks, Inc. 2002 Director Stock Option Plan (incorporated by reference from Exhibit 10.2 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002 filed with the Securities and Exchange Commission on July 25, 2002)
10.7†	Form of Stock Option Agreement under the RealNetworks, Inc. 1996 Stock Option Plan, as amended and restated (incorporated by reference from Exhibit 10.1 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)
10.8†	Form of Stock Option Agreement under the RealNetworks, Inc. 2000 Stock Option Plan, as amended and restated (incorporated by reference from Exhibit 10.2 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)
10.9†	Forms of Stock Option Agreement under the RealNetworks, Inc. 2002 Director Stock Option Plan (incorporated by reference from Exhibit 10.3 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)
10.10†	RealNetworks, Inc. 2007 Employee Stock Purchase Plan as amended and restated effective October 18, 2010 (incorporated by reference from Exhibit 10.10 to RealNetworks' Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission on March 16, 2011)
10.11†	RealNetworks, Inc. 2007 Director Compensation Stock Plan (incorporated by reference from Exhibit 10.9 to RealNetworks' Annual Report on Form 10-K for the year ended December 31, 2007 filed with the Securities and Exchange Commission on February 29, 2008)
10.12†	RealNetworks, Inc. 2005 Stock Incentive Plan, as amended and restated effective December 17, 2009 (incorporated by reference from Exhibit 10.1 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on December 21, 2009)
10.13†	Form of Non-Qualified Stock Option Terms and Conditions for use under the RealNetworks, Inc. 2005 Stock Incentive Plan, as amended and restated (incorporated by reference from Exhibit 10.11 to RealNetworks' Annual Report on Form 10-K for the year ended December 31, 2006 filed with the Securities and Exchange Commission on March 1, 2007)
10.14†	Form of Restricted Stock Units Terms and Conditions for use under the RealNetworks, Inc. 2005 Stock Incentive Plan, as amended and restated (incorporated by reference from Exhibit 10.12 to RealNetworks' Annual Report on Form 10-K for the year ended December 31, 2006 filed with the Securities and Exchange Commission on March 1, 2007)
10.15†	Form of Performance Restricted Stock Units Terms and Conditions for use under the RealNetworks, Inc. 2005 Stock Incentive Plan, as amended and restated (incorporated by reference from Exhibit 10.6 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed with the Securities and Exchange Commission on August 9, 2011)
10.16	Lease dated January 21, 1998 between RealNetworks, Inc. as Lessee and 2601 Elliott, LLC, as amended (incorporated by reference from Exhibit 10.1 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 filed with the Securities and Exchange Commission on November 9, 2004)
10.17†	Form of Director and Officer Indemnification Agreement (incorporated by reference from Exhibit 10.14 to RealNetworks' Registration Statement on Form S-1 filed with the Securities and Exchange Commission on September 26, 1997 (File No. 333-36553))
10.18	Voting Agreement dated September 25, 1997 by and among RealNetworks, Robert Glaser, Accel IV L.P., Mitchell Kapor and Bruce Jacobsen (incorporated by reference from Exhibit 10.17 to RealNetworks' Registration Statement on Form S-1 filed with the Securities and Exchange Commission on September 26, 1997 (File No. 333-36553))
10.19	Agreement dated September 26, 1997 by and between RealNetworks and Robert Glaser (incorporated by reference from Exhibit 10.18 to RealNetworks' Registration Statement on Form S-1 filed with the Securities and Exchange Commission on September 26, 1997 (File No. 333-36553))
10.20†	Employment Agreement and Development, Confidentiality and Noncompetition Agreement by and between Thomas Nielsen and RealNetworks, Inc. effective as of November 9, 2011
10.21†	Offer Letter dated February 13, 2006 between RealNetworks, Inc. and Michael Eggers (incorporated by reference from Exhibit 10.19 to RealNetworks' Annual Report on form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission on March 16, 2006)
10.22†	Offer Letter dated January 23, 2009 between RealNetworks, Inc. and Bob Kimball (incorporated by reference from Exhibit 10.26 to RealNetworks' Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission on March 2, 2009)
10.23†	Offer Letter dated January 17, 2008 between RealNetworks, Inc. and Michael Lunsford (incorporated by reference from Exhibit 10.23 to RealNetworks' Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission on March 10, 2010)

10.24†	Offer Letter dated September 2, 2010 between RealNetworks, Inc. and Tracy D. Daw (incorporated by reference from Exhibit 10.23 to Amendment No. 1 to RealNetworks' Annual Report on Form 10-K/A for the year ended December 31, 2010 filed with the Securities and Exchange Commission on May 2, 2011)
10.25†	Offer Letter dated January 5, 2009 between RealNetworks, Inc. and Hank Skorny (incorporated by reference from Exhibit 10.1 to RealNetworks' Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 9, 2010)
10.26†	Promotion Letter dated October 23, 2009 between RealNetworks, Inc. and Hank Skorny (incorporated by reference from Exhibit 10.23 to RealNetworks' Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission on March 16, 2011)
10.27†	Retention Letter dated February 24, 2010 between RealNetworks, Inc. and Robert Kimball (incorporated by reference from Exhibit 10.1 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on February 26, 2010)
10.28†	Retention Letter dated February 24, 2010 between RealNetworks, Inc. and Michael Eggers (incorporated by reference from Exhibit 10.2 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on February 26, 2010)
10.29†	Retention Letter dated February 24, 2010 between RealNetworks, Inc. and Michael Lunsford (incorporated by reference from Exhibit 10.3 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on February 26, 2010)
10.30†	Retention Letter dated February 24, 2010 between RealNetworks, Inc. and Tracy D. Daw (incorporated by reference from Exhibit 10.30 to RealNetworks' Annual Report on Form 10-K/A for the year ended December 31, 2010 filed with the Securities and Exchange Commission on May 2, 2011)
10.31†	Retention Letter dated April 16, 2010 between RealNetworks, Inc. and Hank Skorny (incorporated by reference from Exhibit 10.2 to RealNetworks' Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 9, 2010)
10.32†	Change in Control and Severance Agreement dated February 24, 2010 between RealNetworks, Inc. and Robert Kimball (incorporated by reference from Exhibit 10.4 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on February 26, 2010)
10.33†	Separation Agreement and Release between RealNetworks, Inc. and Robert Kimball dated March 28, 2011 (incorporated by reference from Exhibit 10.1 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on May 10, 2011)
10.34†	Severance Letter Agreement dated May 31, 2011 between RealNetworks, Inc. and Michael Lunsford (incorporated by reference from Exhibit 10.1 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed with the Securities and Exchange Commission on August 9, 2011)
10.35†	Severance Letter Agreement dated May 31, 2011 between RealNetworks, Inc. and Michael Eggers (incorporated by reference from Exhibit 10.2 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed with the Securities and Exchange Commission on August 9, 2011)
10.36†	Severance Letter Agreement dated May 31, 2011 between RealNetworks, Inc. and Tracy D. Daw (incorporated by reference from Exhibit 10.2 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed with the Securities and Exchange Commission on August 9, 2011)
10.37†	Severance Letter Agreement dated May 31, 2011 between RealNetworks, Inc. and Hank Skorny (incorporated by reference from Exhibit 10.2 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed with the Securities and Exchange Commission on August 9, 2011)
10.38†	Form of Amended and Restated Change in Control and Severance Agreement effective May 31, 2011 between RealNetworks, Inc. and each of Michael Lunsford, Michael Eggers, Hank Skorny and Tracy D. Daw (incorporated by reference from Exhibit 10.5 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed with the Securities and Exchange Commission on August 9, 2011)

10.39†	Form of MBO Plan Document under the RealNetworks, Inc. 2010 Executive Compensation Program (incorporated by reference from Exhibit 10.2 to RealNetworks' Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2010)
10.40†	Form of MBO Plan Document under the RealNetworks, Inc. 2011 Executive Compensation Program (incorporated by reference from Exhibit 10.35 to RealNetworks' Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission on March 16, 2011)
10.41*	Amended and Restated Settlement Agreement dated as of March 10, 2006 between RealNetworks, Inc. and Microsoft Corporation (incorporated by reference from Exhibit 10.24 to RealNetworks' Annual Report on form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission on March 16, 2006)
10.42*	Transaction, Contribution and Purchase Agreement dated as of August 20, 2007 by and among Rhapsody America LLC, RealNetworks, Inc., RealNetworks Digital Music of California, Inc., Viacom International Inc. and DMS Holdco Inc. (incorporated by reference from Exhibit 10.1 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007 filed with the Securities and Exchange Commission on November 9, 2007)
10.43	Amended and Restated Stockholder Agreement dated as of November 30, 2011 among Rhapsody International Inc., RealNetworks, Inc., RealNetworks Digital Music of California, Inc., Viacom International Inc., Napster, LLC, Best Buy Co., Inc. and DMS Holdco Inc.
10.44*	License Agreement, dated as of January 26, 2012, by and between RealNetworks, Inc. and Intel Corporation (incorporated by reference from Exhibit 10.1 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2012)
21.1	Subsidiaries of RealNetworks, Inc.
23.1	Consent of KPMG LLP
24.1	Power of Attorney (included on signature page)
31.1	Certification of Thomas Nielsen, President and Chief Executive Officer of RealNetworks, Inc., Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Michael Eggers, Senior Vice President, Chief Financial Officer and Treasurer of RealNetworks, Inc., Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Thomas Nielsen, President and Chief Executive Officer of RealNetworks, Inc., Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Michael Eggers, Senior Vice President, Chief Financial Officer and Treasurer of RealNetworks, Inc., Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

† Executive Compensation Plan or Agreement

* Portions of this exhibit are omitted and were filed separately with the Securities and Exchange Commission pursuant to the Company's application requesting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Seattle, State of Washington, on February 29, 2012.

REALNETWORKS, INC.

By: /s/ THOMAS NIELSEN
Thomas Nielsen
President and Chief Executive Officer

POWER OF ATTORNEY

Each person whose signature appears below hereby constitutes and appoints Thomas Nielsen and Tracy Daw, and each of them severally, his or her true and lawful attorneys-in-fact and agents, with full power to act without the other and with full power of substitution and resubstitution, to execute in his or her name and on his or her behalf, individually and in each capacity stated below, any and all amendments and supplements to this Report, and any and all other instruments necessary or incidental in connection herewith, and to file the same with the Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated below on February 29, 2012.

Signature	Title
/s/ THOMAS NIELSEN Thomas Nielsen	President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ MICHAEL EGGERS Michael Eggers	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)
/s/ ROBERT GLASER Robert Glaser	Chairman of the Board
/s/ ERIC A. BENHAMOU Eric A. Benhamou	Director
/s/ KALPANA RAINA Kalpana Raina	Director
/s/ JANICE ROBERTS Janice Roberts	Director
/s/ MICHAEL B. SLADE Michael B. Slade	Director
/s/ DOMINIQUE TREMPONT Dominique Trempont	Director

Exhibit Index

Exhibit Number	Description
2.1	Transaction, Contribution and Purchase Agreement dated as of February 9, 2010 among Rhapsody America LLC, RealNetworks, Inc., RealNetworks Digital Music of California, Inc., Viacom International Inc. and DMS Holdco Inc. (incorporated by reference from Exhibit 2.1 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on April 6, 2010)
2.2	Combination Agreement by and among RealNetworks, Inc., RN International Holdings B.V. and WiderThan Co., Ltd. dated as of September 12, 2006 (incorporated by reference from Exhibit 2.1 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on September 14, 2006)
2.3*	Asset Purchase Agreement, dated as of January 26, 2012, by and between RealNetworks, Inc. and Intel Corporation (incorporated by reference from Exhibit 2.1 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2012). Certain schedules and exhibits referenced in the Asset Purchase Agreement have been omitted in accordance with Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request.
3.1	Amended and Restated Articles of Incorporation (incorporated by reference from Exhibit 3.1 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000 filed with the Securities and Exchange Commission on August 11, 2000)
3.2	Articles of Amendment to the Amended and Restated Articles of Incorporation of RealNetworks, Inc. (incorporated by reference from Exhibit 3.1 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on August 31, 2011)
3.3	Amended and Restated Bylaws effective July 23, 2010 (incorporated by reference from Exhibit 3.1 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on July 29, 2010)
4.1	Amended and Restated Shareholder Rights Plan dated as of December 2, 2008, by and between RealNetworks, Inc. and Mellon Investor Services LLC including the form of Certificate of Designation, the form of Rights Certificate and the Summary of Rights attached thereto as Exhibits A, B and C, respectively (incorporated by reference from Exhibit 4.1 to RealNetworks' Form 8-K filed with the Securities and Exchange Commission on December 3, 2008)
10.1†	RealNetworks, Inc. 1995 Stock Option Plan (incorporated by reference from Exhibit 99.1 to RealNetworks' Registration Statement on Form S-8 filed with the Securities and Exchange Commission on September 14, 1998)
10.2†	RealNetworks, Inc. 1996 Stock Option Plan, as amended and restated on June 1, 2001 (incorporated by reference from Exhibit 10.1 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001 filed with the Securities and Exchange Commission on August 13, 2001)
10.3†	Amendment No. 1 to the RealNetworks, Inc. 1996 Stock Option Plan, as amended and restated on June 1, 2001 (incorporated by reference from Exhibit 10.3 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on December 21, 2009)
10.4†	RealNetworks, Inc. 2000 Stock Option Plan, as amended and restated on June 1, 2001 (incorporated by reference from Exhibit 10.2 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001 filed with the Securities and Exchange Commission on August 13, 2001)
10.5†	Amendment No. 1 to the RealNetworks, Inc. 2000 Stock Option Plan, as amended and restated on June 1, 2001 (incorporated by reference from Exhibit 10.2 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on December 21, 2009)
10.6†	RealNetworks, Inc. 2002 Director Stock Option Plan (incorporated by reference from Exhibit 10.2 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002 filed with the Securities and Exchange Commission on July 25, 2002)
10.7†	Form of Stock Option Agreement under the RealNetworks, Inc. 1996 Stock Option Plan, as amended and restated (incorporated by reference from Exhibit 10.1 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)
10.8†	Form of Stock Option Agreement under the RealNetworks, Inc. 2000 Stock Option Plan, as amended and restated (incorporated by reference from Exhibit 10.2 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)
10.9†	Forms of Stock Option Agreement under the RealNetworks, Inc. 2002 Director Stock Option Plan (incorporated by reference from Exhibit 10.3 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)

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10.10†	RealNetworks, Inc. 2007 Employee Stock Purchase Plan as amended and restated effective October 18, 2010 (incorporated by reference from Exhibit 10.10 to RealNetworks' Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission on March 16, 2011)
10.11†	RealNetworks, Inc. 2007 Director Compensation Stock Plan (incorporated by reference from Exhibit 10.9 to RealNetworks' Annual Report on Form 10-K for the year ended December 31, 2007 filed with the Securities and Exchange Commission on February 29, 2008)
10.12†	RealNetworks, Inc. 2005 Stock Incentive Plan, as amended and restated effective December 17, 2009 (incorporated by reference from Exhibit 10.1 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on December 21, 2009)
10.13†	Form of Non-Qualified Stock Option Terms and Conditions for use under the RealNetworks, Inc. 2005 Stock Incentive Plan, as amended and restated (incorporated by reference from Exhibit 10.11 to RealNetworks' Annual Report on Form 10-K for the year ended December 31, 2006 filed with the Securities and Exchange Commission on March 1, 2007)
10.14†	Form of Restricted Stock Units Terms and Conditions for use under the RealNetworks, Inc. 2005 Stock Incentive Plan, as amended and restated (incorporated by reference from Exhibit 10.12 to RealNetworks' Annual Report on Form 10-K for the year ended December 31, 2006 filed with the Securities and Exchange Commission on March 1, 2007)
10.15†	Form of Performance Restricted Stock Units Terms and Conditions for use under the RealNetworks, Inc. 2005 Stock Incentive Plan, as amended and restated (incorporated by reference from Exhibit 10.6 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed with the Securities and Exchange Commission on August 9, 2011)
10.16	Lease dated January 21, 1998 between RealNetworks, Inc. as Lessee and 2601 Elliott, LLC, as amended (incorporated by reference from Exhibit 10.1 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 filed with the Securities and Exchange Commission on November 9, 2004)
10.17†	Form of Director and Officer Indemnification Agreement (incorporated by reference from Exhibit 10.14 to RealNetworks' Registration Statement on Form S-1 filed with the Securities and Exchange Commission on September 26, 1997 (File No. 333-36553))
10.18	Voting Agreement dated September 25, 1997 by and among RealNetworks, Robert Glaser, Accel IV L.P., Mitchell Kapor and Bruce Jacobsen (incorporated by reference from Exhibit 10.17 to RealNetworks' Registration Statement on Form S-1 filed with the Securities and Exchange Commission on September 26, 1997 (File No. 333-36553))
10.19	Agreement dated September 26, 1997 by and between RealNetworks and Robert Glaser (incorporated by reference from Exhibit 10.18 to RealNetworks' Registration Statement on Form S-1 filed with the Securities and Exchange Commission on September 26, 1997 (File No. 333-36553))
10.20†	Employment Agreement and Development, Confidentiality and Noncompetition Agreement by and between Thomas Nielsen and RealNetworks, Inc. effective as of November 9, 2011
10.21†	Offer Letter dated February 13, 2006 between RealNetworks, Inc. and Michael Eggers (incorporated by reference from Exhibit 10.19 to RealNetworks' Annual Report on form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission on March 16, 2006)
10.22†	Offer Letter dated January 23, 2009 between RealNetworks, Inc. and Bob Kimball (incorporated by reference from Exhibit 10.26 to RealNetworks' Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission on March 2, 2009)
10.23†	Offer Letter dated January 17, 2008 between RealNetworks, Inc. and Michael Lunsford (incorporated by reference from Exhibit 10.23 to RealNetworks' Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission on March 10, 2010)
10.24†	Offer Letter dated September 2, 2010 between RealNetworks, Inc. and Tracy D. Daw (incorporated by reference from Exhibit 10.23 to Amendment No. 1 to RealNetworks' Annual Report on Form 10-K/A for the year ended December 31, 2010 filed with the Securities and Exchange Commission on May 2, 2011)
10.25†	Offer Letter dated January 5, 2009 between RealNetworks, Inc. and Hank Skorny (incorporated by reference from Exhibit 10.1 to RealNetworks' Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 9, 2010)
10.26†	Promotion Letter dated October 23, 2009 between RealNetworks, Inc. and Hank Skorny (incorporated by reference from Exhibit 10.23 to RealNetworks' Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission on March 16, 2011)
10.27†	Retention Letter dated February 24, 2010 between RealNetworks, Inc. and Robert Kimball (incorporated by reference from Exhibit 10.1 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on February 26, 2010)
10.28†	Retention Letter dated February 24, 2010 between RealNetworks, Inc. and Michael Eggers (incorporated by reference from Exhibit 10.2 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on February 26, 2010)
10.29†	Retention Letter dated February 24, 2010 between RealNetworks, Inc. and Michael Lunsford (incorporated by reference from Exhibit 10.3 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on February 26, 2010)

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10.30†	Retention Letter dated February 24, 2010 between RealNetworks, Inc. and Tracy D. Daw (incorporated by reference from Exhibit 10.30 to RealNetworks' Annual Report on Form 10-K/A for the year ended December 31, 2010 filed with the Securities and Exchange Commission on May 2, 2011)
10.31†	Retention Letter dated April 16, 2010 between RealNetworks, Inc. and Hank Skorny (incorporated by reference from Exhibit 10.2 to RealNetworks' Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 9, 2010)
10.32†	Change in Control and Severance Agreement dated February 24, 2010 between RealNetworks, Inc. and Robert Kimball (incorporated by reference from Exhibit 10.4 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on February 26, 2010)
10.33†	Separation Agreement and Release between RealNetworks, Inc. and Robert Kimball dated March 28, 2011 (incorporated by reference from Exhibit 10.1 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on May 10, 2011)
10.34†	Severance Letter Agreement dated May 31, 2011 between RealNetworks, Inc. and Michael Lunsford (incorporated by reference from Exhibit 10.1 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed with the Securities and Exchange Commission on August 9, 2011)
10.35†	Severance Letter Agreement dated May 31, 2011 between RealNetworks, Inc. and Michael Eggers (incorporated by reference from Exhibit 10.2 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed with the Securities and Exchange Commission on August 9, 2011)
10.36†	Severance Letter Agreement dated May 31, 2011 between RealNetworks, Inc. and Tracy D. Daw (incorporated by reference from Exhibit 10.2 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed with the Securities and Exchange Commission on August 9, 2011)
10.37†	Severance Letter Agreement dated May 31, 2011 between RealNetworks, Inc. and Hank Skorny (incorporated by reference from Exhibit 10.2 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed with the Securities and Exchange Commission on August 9, 2011)
10.38†	Form of Amended and Restated Change in Control and Severance Agreement effective May 31, 2011 between RealNetworks, Inc. and each of Michael Lunsford, Michael Eggers, Hank Skorny and Tracy D. Daw (incorporated by reference from Exhibit 10.5 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed with the Securities and Exchange Commission on August 9, 2011)

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10.39†	Form of MBO Plan Document under the RealNetworks, Inc. 2010 Executive Compensation Program (incorporated by reference from Exhibit 10.2 to RealNetworks' Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2010)
10.40†	Form of MBO Plan Document under the RealNetworks, Inc. 2011 Executive Compensation Program (incorporated by reference from Exhibit 10.35 to RealNetworks' Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission on March 16, 2011)
10.41*	Amended and Restated Settlement Agreement dated as of March 10, 2006 between RealNetworks, Inc. and Microsoft Corporation (incorporated by reference from Exhibit 10.24 to RealNetworks' Annual Report on form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission on March 16, 2006)
10.42*	Transaction, Contribution and Purchase Agreement dated as of August 20, 2007 by and among Rhapsody America LLC, RealNetworks, Inc., RealNetworks Digital Music of California, Inc., Viacom International Inc. and DMS Holdco Inc. (incorporated by reference from Exhibit 10.1 to RealNetworks' Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007 filed with the Securities and Exchange Commission on November 9, 2007)
10.43	Amended and Restated Stockholder Agreement dated as of November 30, 2011 among Rhapsody International Inc., RealNetworks, Inc., RealNetworks Digital Music of California, Inc., Viacom International Inc., Napster, LLC, Best Buy Co., Inc. and DMS Holdco Inc.
10.44*	License Agreement, dated as of January 26, 2012, by and between RealNetworks, Inc. and Intel Corporation (incorporated by reference from Exhibit 10.1 to RealNetworks' Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2012)
21.1	Subsidiaries of RealNetworks, Inc.
23.1	Consent of KPMG LLP
24.1	Power of Attorney (included on signature page)
31.1	Certification of Thomas Nielsen, President and Chief Executive Officer of RealNetworks, Inc., Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Michael Eggers, Senior Vice President, Chief Financial Officer and Treasurer of RealNetworks, Inc., Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Thomas Nielsen, President and Chief Executive Officer of RealNetworks, Inc., Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Michael Eggers, Senior Vice President, Chief Financial Officer and Treasurer of RealNetworks, Inc., Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

† Executive Compensation Plan or Agreement

* Portions of this exhibit are omitted and were filed separately with the Securities and Exchange Commission pursuant to the Company's application requesting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

Exhibit 10.20

REALNETWORKS, INC.

THOMAS NIELSEN EMPLOYMENT AGREEMENT

This Employment Agreement (the " *Agreement* ") is made and entered into by and between Thomas Nielsen (" *Executive* ") and RealNetworks, Inc., a Washington corporation (the " *Company* "), effective as of November 9, 2011 (the " *Effective Date* "). The Agreement replaces the offer letter and attached terms of executive employment agreement for Executive, which were dated October 18, 2011.

1. Duties and Scope of Employment .

(a) Positions and Duties . As of the Effective Date, Executive will serve as the Company's President and Chief Executive Officer. Executive will report to the Company's Board of Directors (the " *Board* "). As of the Effective Date, Executive will render such business and professional services in the performance of his duties, consistent with Executive's position within the Company, as will reasonably be assigned to him by the Board.

(b) Board Membership . Executive will be appointed to serve as a member of the Board as soon as practicable after the Effective Date. Thereafter, at each annual meeting of the Company's stockholders during the Employment Term (as defined below) at which Executive's director class is up for election, the Company will nominate Executive to serve as a member of the Board. Executive's service as a member of the Board will be subject to any required stockholder approval. Upon the termination of Executive's employment for any reason, unless otherwise requested by the Board, Executive will be deemed to have resigned from the Board (and all other positions held at the Company and its affiliates), without any further required action by Executive, as of the end of Executive's employment and Executive, at the Board's request, will execute any documents necessary to reflect his resignation.

(c) Obligations . During the Employment Term, Executive will devote Executive's full business efforts and time to the Company and will use good faith efforts to discharge Executive's obligations under this Agreement to the best of Executive's ability and in accordance with the Company's corporate governance guidelines and code of business conduct and ethics. For the duration of the Employment Term, Executive agrees not to actively engage in any other employment, occupation, or consulting activity for any direct or indirect remuneration without the prior approval of the Board (which approval will not be unreasonably withheld); provided, however, that Executive may, without additional approval of the Board (but in accordance with and subject to Company policies as then in effect), serve (i) as a non-employee director or PNI Digital Media Inc., and (ii) in any capacity with any civic, educational, or charitable organization, provided in all cases that such services do not interfere with Executive's obligations to the Company. Executive hereby represents and warrants to the Company that Executive is not party to any contract, understanding, agreement or policy, written or otherwise, that would be breached by Executive's entering into, or performing services under, this Agreement. Executive further represents that he disclosed to the Company in writing all threatened, pending, or actual claims that were unresolved and still outstanding as of the Effective Date, in each case, against Executive of which he was aware, if any, as a result of his employment with any previous employer or his membership on any boards of directors.

(d) Other Entities . The Executive acknowledges that in the course of his duties that he may be appointed to serve as an officer or director of one or more of the Company's subsidiaries, partnerships, joint ventures, limited liability companies and other affiliates, including entities in which the Company has a significant investment and Executive agrees to serve without additional compensation as an officer and director for any such subsidiaries, partnerships, joint ventures, limited liability companies or other affiliates. As used in this Agreement, the term "affiliates" will include any entity controlled by, controlling, or under common control of the Company.

2. Term of Agreement . Subject to earlier termination as provided for below, this Agreement will have an initial term of four (4) years commending on the Effective Date. This Agreement shall automatically extend for successive additional terms of one (1) year each (each, a " *Successive One-Year Term* ") unless, at least ninety (90) days prior to the end of the initial four (4) year term or any Successive One-Year Term, the Company or Executive gives written notice of intent to terminate this Agreement (a " *Notice of Non-Renewal* "). The term of employment under this Agreement shall include the initial four (4) year period and any extension thereof (the " *Employment Term* "). If Executive's employment terminates as a result of the receipt of a Notice of Non-Renewal from the Company, Executive may be entitled to the payments and benefits under Section 8 or Section 9 of this Agreement, as provided in such Sections. For the avoidance of doubt, unless the Company actually sends, and Executive actually receives from the Company, a Notice of Non-Renewal, Executive will not be entitled to severance payments or benefits on account of non-renewal of this Agreement.

3. At-Will Employment . Executive and the Company agree that Executive's employment with the Company constitutes "at-will" employment. Executive and the Company acknowledge that this employment relationship may be terminated at any time, upon written notice to the other party, with or without good cause or for any or no cause, at the option either of the Company or Executive. However, as described in this Agreement, Executive may be entitled to severance benefits depending upon the circumstances of Executive's termination of employment.

4. Compensation .

(a) Base Salary . As of the Effective Date, the Company will pay Executive an annual salary of $450,000 as compensation for his services (such annual salary, as is then effective, to be referred to herein as " *Base Salary* "). The Base Salary will be paid periodically in accordance with the Company's normal payroll practices and be subject to the usual, required withholdings.

(b) Annual Incentive . Executive will be eligible to receive annual incentives payable for the achievement of performance goals established by the Compensation Committee of the Board (the " *Committee* "). For the Company's fiscal year 2012, and for the remainder of the Employment Term, Executive's target annual incentive will be not less than one hundred percent

(100%) of Base Salary. The actual earned annual cash incentive, if any, payable to Executive for any performance period will depend upon the extent to which the applicable performance goal(s) specified by the Committee are achieved or exceeded and may be adjusted for under- or over-performance. Each annual incentive will be subject to the terms of the Company's bonus plan then in effect for Company senior executives. For the remainder of the Company's fiscal year 2011, Executive will be entitled to a prorated annual incentive based on the portion of the year that Executive works and will be based on non-financial performance goals to be established by the Committee after discussion with Executive.

(c) Signing Bonus . Executive will receive a signing bonus in the amount of $100,000 payable during January 2012. If, within the first year of employment with the Company, Executive terminates employment voluntarily without "Good Reason" or is terminated for "Cause" (both as defined below), Executive shall be required to repay the bonus to the Company within thirty (30) days of such termination.

(d) Stock Options . Subject to approval of the Board, Executive will be granted, as soon as administratively practicable on or following the Effective Date, stock options to purchase 880,000 of shares of Company common stock at an exercise price equal to one hundred percent (100%) of the fair market value on the date of grant (the " *Stock Option* "). The Stock Option will be subject to the Company's standard terms and conditions, including a maximum term of seven years and will be subject to the Company's standard form of stock option agreement. The vesting schedule for the Stock Option will be as follows:

(i) The vesting schedule for 640,000 of the options subject to the Stock Option will be based only on Executive's continued service to the Company. These options will be scheduled to vest as to twenty-five (25%) of the covered shares on the first anniversary of the Effective Date and as to an additional twelve and one-half percent (12.5%) of the shares on each succeeding six-month anniversary so that this portion of the option is fully vested four years after the date of grant. Except to the limited extent expressly provided in Section 8 and Section 9 of this agreement, in order to vest in any shares on any particular vesting date, Executive must remain employed with the Company as President and Chief Executive Officer continuously through such date.

(ii) The vesting schedule for options representing the remaining 240,000 shares subject to the Stock Option will be based on the achievement of a price target for the Company's common stock and Executive's continued service with the Company as President and Chief Executive Officer (the " *Performance Option* "). These Performance Options will vest only if the average closing price for the Company's common stock during a period of thirty (30) consecutive trading days is at least two times the average closing price of the Company's common stock for the ninety (90) calendar days preceding the Effective Date. The thirty (30) and ninety (90) day average closing prices will be adjusted for any extraordinary cash dividend or stock split.

(iii) If (and only if) the price target is satisfied, 120,000 of the shares covered by the Performance Option immediately will vest as of the date the price target finally is satisfied. The remaining unvested shares subject to the Performance Option will vest in substantially equal monthly installments, until the Performance Option is fully vested, equal to (a) 30/1460 multiplied by (b) 240,000. If the closing price target has been achieved but unvested shares remain at the sixth annual anniversary of the Effective Date, those remaining shares subject to the Performance Option will immediately vest. Except to the limited extent expressly provided in Section 8 and Section 9 of this agreement, in order to vest in any shares on any particular vesting date, Executive must remain employed with the Company as President and Chief Executive Officer continuously through such date.

5. Employee Benefits.

(a) Generally. Executive will be eligible to participate in accordance with the terms of all Company employee benefit plans, policies and arrangements that are applicable to other executive officers of the Company; as such plans, policies and arrangements may exist from time to time.

(b) Relocation. Executive will be eligible for relocation benefits and services in accordance with the Company's standard programs for senior executives. These benefits will include (but not be limited to) two house hunting trips to Seattle, Washington for Executive and Executive's spouse, reasonable temporary living costs for Executive from the Effective Date until December 5, 2011, and up to one hundred twenty (120) days thereafter for Executive and Executive's spouse. The total amount reimbursable for temporary living costs will not exceed $25,000 and will be paid to Executive as soon as reasonably practicable following the incursion of such expenses and after submission of appropriate receipts and documentation, but in no event later than December 31, 2012.

(c) Vacation. Executive will be entitled to receive paid annual vacation in accordance with Company policy for other senior executive officers.

6. Expenses. The Company will reimburse Executive for reasonable travel, entertainment and other expenses incurred by Executive in the furtherance of the performance of Executive's duties hereunder, in accordance with the Company's expense reimbursement policy as in effect from time to time.

7. Termination of Employment.

(a) Accrued Payments. In the event Executive's employment with the Company terminates for any reason, Executive will be entitled to any (a) unpaid Base Salary accrued up to the effective date of termination; (b) pay for accrued but unused vacation; (c) benefits or compensation as provided under the terms of any employee benefit and compensation agreements or plans applicable to Executive; (d) unreimbursed business expenses required to be reimbursed to Executive; and (e) rights to indemnification Executive may have under the Company's or its subsidiaries' and affiliates' Articles of Incorporation, Bylaws, or separate indemnification agreement, as applicable. In addition, if the termination is in the circumstances described in Section 8 or Section 9 of this Agreement, Executive will be entitled to the amounts and benefits to the extent provided in Section 8 or 9 below as applicable.

(b) Voluntary Resignation without Good Reason; Termination for Cause; Death or Disability . If Executive's employment with the Company terminates voluntarily by Executive (except upon resignation for Good Reason), for Cause by the Company, or due to Executive's death or Disability, then (i) all vesting will terminate immediately with respect to Executive's outstanding equity awards (including any performance Options that have not converted to time-based options), (ii) all payments of compensation by the Company to Executive hereunder will terminate immediately (except as to amounts already earned), and (iii) Executive will only be eligible for severance benefits in accordance with the Company's established policies, if any, as then in effect.

8. Severance Benefits During Employment Term and Outside the Change in Control Period . If, during the Employment Term and outside the Change in Control Period, (i) the Company terminates Executive's employment with the Company for a reason other than Cause, Executive's death or Disability, (ii) Executive resigns for Good Reason, or (iii) the Company provides Executive with a Notice of Non-Renewal, then, in each case subject to Section 10, Executive will receive the following severance from the Company:

(a) Base Salary Severance . Executive will receive continued payment of Executive's annual base salary for a period of eighteen (18) months payable in accordance with the Company's then-standard payroll practices, with such annual base salary being determined so as to provide the highest annual base salary among the following: (i) immediately prior to Executive's termination of employment, and (ii) immediately prior to any reduction of Executive's base salary described in clause (ii) of the definition of "Good Reason" under Section 12(f) below.

(b) Prorated Incentive Bonus . Executive will receive a lump sum severance payment equal to Executive's prorated bonus for any partial incentive bonus period (based on the number of days Executive remained an employee of the Company) through the date of Executive's termination of employment (based upon actual performance of the applicable performance goals through the date of such termination) to the extent not already paid. Such amount will be paid within the Applicable Payment Period.

(c) Stock Options . All of Executive's unvested and outstanding time-based stock options (including performance-based stock options that have been converted to time-based following achievement of the applicable performance goals), will be accelerated as to an additional twelve (12) months of vesting and become exercisable as of the date of Executive's termination of employment.

(d) Continued Employee Benefits . If Executive elects continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (" *COBRA* ") for Executive and Executive's eligible dependents (as applicable), within the time period prescribed pursuant to COBRA, the Company will reimburse Executive for, or pay directly on Executive's behalf, the COBRA premiums for such coverage (at the coverage levels in effect immediately prior to Executive's termination of employment) until the earlier of (A) a period of twelve (12) months from the last date of employment of the Executive with the Company, or (B) the date upon which Executive becomes covered under similar plans. Notwithstanding anything to the contrary in this Section 8(d), if the Company determines in its sole discretion that it cannot provide the COBRA benefits without potentially violating applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company will in lieu thereof provide to Executive a taxable monthly payment in an amount equal to the monthly COBRA premium that Executive would be required to pay to continue his group health coverage in effect on the date of his termination of employment (which amount will be based on the premium for the first month of COBRA coverage), which payments will be made regardless of whether Executive elects COBRA continuation coverage and will commence in the month following the month in which Executive terminates employment and will end on the earlier of (x) the date upon which Executive becomes covered under similar plans or (y) the last day of the twelfth (12 th) calendar month following the month in which Executive terminations employment.

9. Severance Benefits During Employment Term and Within the Change in Control Period . If, during the Employment Term and within the Change in Control Period, (i) the Company terminates Executive's employment with the Company for a reason other than Cause, Executive's death or Disability, (ii) Executive resigns for Good Reason, or (iii) the Company provides Executive with a Notice of Non-Renewal, then, in each case subject to Section 10, Executive will receive the following severance from the Company:

(a) Base Salary Severance . Executive will receive a lump sum severance payment equal to two hundred percent (200%) of Executive's annual base salary as in effect at the time that provides the highest annual base salary among the following: (i) immediately prior to Executive's termination of employment, (ii) immediately prior to any reduction of Executive's base salary described in clause (ii) of the definition of "Good Reason" under Section 12(f) below, and (iii) immediately prior to the Change in Control. Such amount will be paid within the Applicable Payment Period.

(b) Target Bonus Severance . Executive will receive a lump sum severance payment equal to two hundred percent (200%) of Executive's target bonus as in effect for such period that provides the highest target bonus for Executive among the following: (i) the fiscal year in which Executive's termination occurs (unless the termination occurs as a result of clause (iii) of the definition of "Good Reason" under Section 12(f) below, in which case the amount will be equal to Executive's target bonus in effect prior to such reduction), (ii) the fiscal year in which the Change in Control occurs, and (iii) the fiscal year preceding the fiscal year in which the Change in Control occurs. Such amount will be paid within the Applicable Payment Period.

(c) Prorated Incentive Bonus . Executive will receive a lump sum severance payment equal to Executive's prorated bonus for any partial incentive bonus period (based on the number of days Executive remained an employee of the Company) through the date of Executive's termination of employment (based upon actual performance of the applicable performance goals through the date of such termination) to the extent not already paid. Such amount will be paid within the Applicable Payment Period.

(d) Stock Options . All of Executive's unvested and outstanding time-based stock options (including performance-based stock options that have been converted to time-based following achievement of the applicable performance goals), will be accelerated as to an additional twenty-four (24) months of vesting and become exercisable as of the date of Executive's termination of employment.

(e) Continued Employee Benefits . If Executive elects continuation coverage pursuant to COBRA for Executive and Executive's eligible dependents (as applicable), within the time period prescribed pursuant to COBRA, the Company will reimburse Executive for, or pay directly on Executive's behalf, the COBRA premiums for such coverage (at the coverage levels in effect immediately prior to Executive's termination of employment) until the earlier of (A) a period of eighteen (18) months from the last date of employment of the Executive with the Company, or (B) the date upon which Executive becomes covered under similar plans. Notwithstanding anything to the contrary in this Section 9(d), if the Company determines in its sole discretion that it cannot provide the COBRA benefits without potentially violating applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company will in lieu thereof provide to Executive a taxable monthly payment in an amount equal to the monthly COBRA premium that Executive would be required to pay to continue his group health coverage in effect on the date of his termination of employment (which amount will be based on the premium for the first month of COBRA coverage), which payments will be made regardless of whether Executive elects COBRA continuation coverage and will commence in the month following the month in which Executive terminates employment and will end on the earlier of (x) the date upon which Executive becomes covered under similar plans or (y) the last day of the eighteenth (18 th) calendar month following the month in which Executive terminations employment.

10. Conditions to Receipt of Severance .

(a) Release of Claims Agreement . The receipt of any severance payments or benefits pursuant to this Agreement is subject to Executive signing and not revoking a release of claims in the form attached hereto as Exhibit A (the " *Release* "), which must become effective and irrevocable no later than the sixtieth (60 th) day following Executive's termination of employment (the " *Release Deadline* "). If the Release does not become effective and irrevocable by the Release Deadline, Executive will forfeit any right to severance payments or benefits under this Agreement. In no event will severance payments or benefits be paid or provided until the Release actually becomes effective and irrevocable.

(i) In the event the termination occurs at a time during the calendar year when the Release could become effective in the calendar year following the calendar year in which Executive's termination of employment occurs (whether or not it actually becomes effective in the following year), then any severance payments and benefits under this Agreement that would be considered Deferred Payments (as defined in Section 10(c) below) will be paid on the first payroll date to occur during the calendar year following the calendar year in which such termination occurs, or, if later, (A) the date the Release actually becomes effective, (B) such time as required by the payment schedule applicable to each payment or benefit as set forth in Section 10(a)(ii), or (C) such time as required by Section 10(c).

(ii) No severance payments and benefits under this Agreement will be paid or provided unless and until the Release is signed by Executive, delivered to the Company and if applicable, any seven day revocation period contained in the Release expires without Executive revoking the Release. Any severance payments and benefits otherwise payable to Executive between the date of Executive's termination of employment and the date the Release is delivered to the Company and becomes irrevocable will be paid on the date the Release is delivered to the Company (if the Release contains no seven day revocation period) or on the date that the seven day revocation period expires (if the Release contains a seven day revocation period). In the event of Executive's death before all of the severance payments and benefits under this Agreement have been paid, such unpaid amounts will be paid in a lump sum payment promptly following such event to Executive's designated beneficiary, if living, or otherwise to the personal representative of Executive's estate.

(b) Non-competition, Non-disparagement, No-hire, and Non-solicitation . Executive agrees, to the extent permitted by applicable law, that in the event Executive receives severance pay or other severance benefits pursuant to this Agreement,

(i) that for the applicable Restricted Period, Executive will not, either directly or indirectly, (i) serve as an advisor, agent, consultant, director, employee, officer, partner, proprietor or otherwise of, (ii) have any ownership interest in (except for passive ownership of one percent (1%) or less of any entity whose securities have been registered under the Securities Act of 1933, as amended, or Section 12 of the Securities Exchange Act of 1934, as amended) or (iii) participate in the organization, financing, operation, management or control of, any business in competition with the Company's business as conducted by the Company as of the date of Executive's termination of employment. The foregoing covenant shall cover Executive's activities in every part of the Territory. The covenants contained in this Section 10(b)(i) shall be construed as a series of separate covenants, one for each city, county and state of any geographic area in the Territory. Except for geographic coverage, each such separate covenant shall be deemed identical in terms to the covenant contained in this Section 10(b)(i). If, in any judicial proceeding, a court refuses to enforce any of such separate covenants (or any part thereof), then such unenforceable covenant (or such part) shall be eliminated from this Agreement to the extent necessary to permit the remaining separate covenants (or portions thereof) to be enforced. In the event the provisions of this Section 10(b)(i) are deemed to exceed the time, geographic or scope limitations permitted by applicable law, then such provisions shall be reformed to the maximum time, geographic or scope limitations, as the case may be, then permitted by such law;

(ii) that for the applicable Restricted Period, Executive will refrain from any disparaging statements about the Company and its officers, directors and affiliates, including, without limitation, the business, products, intellectual property, financial standing, future, or employment/compensation/benefit practices of the Company; *provided, however* , that the foregoing requirement under this Section 10(b)(ii) will not apply to any statements that Executive makes in addressing any statements made by the Company, its officers and/or its directors regarding Executive or Executive's performance as an employee of the Company so long as Executive's statements are, in the good faith judgment of Executive, truthful; and provided further that foregoing requirement under this Section 10(b)(ii) will not apply to truthful testimony that Executive is required by law to provide, including a response to a subpoena;

(iii) that for the applicable Restricted Period, Executive will not, either directly or indirectly, solicit, induce, recruit or encourage any of the Company's employees to leave their employment, or hire or take away such employees, or attempt to solicit, induce, recruit, encourage, hire or take away employees of the Company, either for Executive's own purposes, or for any other person or entity. Executive acknowledges and agrees that the Company is relying on Executive's compliance with this Section 10 (b) as an essential term of this Agreement; and

(iv) if Executive becomes entitled to receive any severance benefits or payments pursuant to this Agreement and a majority of the Board determines that Executive has committed a material violation of this Section 10 that results in substantial harm to the Company, the Company will be entitled to cease providing and/or recover any severance payments made or benefits provided pursuant to this Agreement. Before the Board makes any such determination, Executive will receive reasonable notice and an opportunity to be heard (with Executive's attorney) at a meeting of the Board. The Company's rights pursuant to this Section 10(b) are in addition to any remedies it may have for breach of contract or otherwise; further, the remaining terms of this Agreement, as well as the Release contemplated by Section 10(a), as applicable, will remain in full force and effect.

(c) Section 409A .

(i) Notwithstanding anything to the contrary in this Agreement, no severance payments or benefits payable to Executive, if any, pursuant to Sections 8 or 9 of this Agreement that, when considered together with any other severance payments or separation benefits, is considered deferred compensation under Internal Revenue Code Section 409A (together, the " *Deferred Payments* ") will be payable until Executive has a "separation from service" within the meaning of Section 409A (" *Section 409A* ") of the Internal Revenue Code of 1986, as amended (the " *Code* "). Similarly, no severance payable to Executive, if any, pursuant to this Agreement that otherwise would be exempt from Section 409A pursuant to Treasury Regulation Section 1.409A-1(b)(9) will be payable until Executive has a "separation from service" within the meaning of Section 409A.

(ii) Further, if Executive is a "specified employee" within the meaning of Section 409A at the time of Executive's separation from service (other than due to death), any Deferred Payments that otherwise are payable within the first six (6) months following Executive's separation from service will become payable on the first payroll date that occurs on or after the date six (6) months and one (1) day following the date of Executive's separation from service. All subsequent Deferred Payments, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, in the event of Executive's death following Executive's separation from service but prior to the six (6) month anniversary of Executive's separation from service (or any later delay date), then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable after the date of Executive's death and all other Deferred Payments will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment and benefit payable under the Agreement is intended to constitute a separate payment for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

(iii) The foregoing provisions are intended to comply with, or be exempt from, the requirements of Section 409A so that none of the severance payments and benefits to be provided under the Agreement will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply or be exempt. Specifically, the payments hereunder are intended to be exempt from the requirements of Section 409A under the "short-term deferral" rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations or, in the case of Base Salary Severance paid pursuant to Section 8(a) of this Agreement or a portion thereof, intended to be paid pursuant to a separation pay plan under the rules set forth in Section 1.409A-1(b)(9). Executive and Company agree that this Agreement, as amended, complies in form with the requirements of Section 409A based on the applicable IRS and Treasury regulations and guidance issued under Section 409A as of the date of this Agreement and the Company presently does not intend to report any income to Executive under Section 409A with respect to benefits under this Agreement, as amended. Executive and the Company agree to work together in good faith to consider amendments to the Agreement and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition prior to actual payment to Executive under Section 409A. In no event will the Company reimburse Executive for any taxes that may be imposed on Executive as result of Section 409A.

11. Limitation on Payments . In the event that the severance and other benefits provided for in this Agreement or otherwise payable to Executive (i) constitute "parachute payments" within the meaning of Section 280G of the Code and (ii) but for this Section 11, would be subject to the excise tax imposed by Section 4999 of the Code, then Executive's severance and other benefits under this Agreement will be either:

(a) delivered in full, or

(b) delivered as to such lesser extent which would result in no portion of such severance benefits being subject to excise tax under Section 4999 of the Code,

whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the receipt by Executive on an after-tax basis, of the greatest amount of severance benefits, notwithstanding that all or some portion of such severance benefits may be taxable under Section 4999 of the Code. Unless the Company and Executive otherwise agree in writing, any determination required under this Section 11 will be made in writing by the Company's independent public accountants immediately prior to the Change in Control (the " *Accountants* "), whose determination will be conclusive and binding upon Executive and the Company for all purposes. For purposes of making the calculations required by this Section 11, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and Executive will furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section. The Company will bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 11. If a reduction in severance and other benefits constituting "parachute payments" is necessary so that benefits are delivered to a lesser extent, reduction will occur in the following order: (1) reduction of the cash severance payments; (2) cancellation of accelerated vesting of equity awards; and (3) reduction of continued employee benefits. In the event that the accelerated vesting of equity awards is to be cancelled, such vesting acceleration will be cancelled in the reverse chronological order of the Executive's equity awards' grant dates.

12. Definition of Terms . The following terms referred to in this Agreement will have the following meanings:

(a) Applicable Payment Period . For the purposes of this Agreement, " *Applicable Payment Period* " means a date within sixty (60) days following the applicable of: (i) the Change in Control, in the case of the Company's termination of Executive without Cause or Executive's resignation for Good Reason before a Change in Control as specified in Section 9; or (ii) the termination of employment, in the case of the Company's termination of Executive without Cause or Executive's resignation for Good Reason pursuant to either Section 8 or coincident with or after a Change in Control as specified in Section 9.

(b) Cause . For purposes of this Agreement, " *Cause* " means conduct involving one or more of the following: (i) the conviction of Executive of, or plea of *nolo contendere* by Executive to, a felony involving moral turpitude (including under federal securities laws), resulting in material harm to the Company; (ii) the willful, substantial and continuing failure of Executive to perform the reasonable duties of his position for a period of at least thirty (30) days following written notice from the Board to the Executive that describes the basis for the Board's belief that Executive has not substantially performed his reasonable duties for reasons other than illness or incapacity; (iii) willful misconduct, gross negligence, fraud, embezzlement, theft, misrepresentation or dishonesty by Executive involving the Company or any of its subsidiaries, in each case that is intended to result in the substantial personal enrichment of Executive and that results in substantial, material harm to the Company; or (iv) Executive's violation of the Confidentiality Agreement or any other confidentiality or non-competition agreements with the Company or its subsidiaries, which violation results in substantial, material harm to the Company.

Other than for a termination pursuant to Section 12(b)(i), Executive will receive notice and an opportunity to be heard before the Board with Executive's own attorney before any termination for Cause is deemed effective. Notwithstanding anything to the contrary, if Executive wishes to avail himself of his opportunity to be heard before the Board prior to the Board's termination of Executive's employment for Cause, the Board may immediately place Executive on administrative leave (with full pay and benefits to the extent legally permissible) and suspend all access to Company information, employees and business. If Executive avails himself of his opportunity to be heard before the Board, and then fails to make himself available to the Board within five (5) business days of such request to be heard, the Board may thereafter cancel the administrative leave and terminate Executive for Cause.

(c) Change in Control . For purposes of this Agreement, " *Change in Control* " means the occurrence of any of the following:

(i) during any period of twenty-four (24) consecutive months, individuals who, at the beginning of the period constitute the Board (the " *Incumbent Directors* ") cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the Company's initial public offering whose election or nomination for election was approved by a vote of at least a majority of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without written objection to such nomination) will be an Incumbent Director; provided, however, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to directors or as a result of any other actual or threatened solicitation of proxies by or on behalf of any person other than the Board will be deemed to be an Incumbent Director. For the avoidance of doubt, the departure from the Board of three (3) directors not standing for re-election in November 2011 (Bleier, Klein and Jotwani) will not be considered in the determination pursuant to this Section 12(c)(i); or

(ii) any "person" (as such term is defined in the Securities Exchange Act of 1934, as amended (the " *Exchange Act* ") and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) is or becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities eligible to vote for the election of the Board (the " *Company Voting Securities* "); provided, however, that the event described in this paragraph (ii) will not be deemed to be a Change in Control by virtue of any of the following acquisitions: (A) by the Company or any subsidiary, (B) by any employee benefit plan (or related trust) sponsored or maintained by the Company or any subsidiary, (C) by any underwriter temporarily holding securities pursuant to an offering of such securities, or (D) pursuant to a Non-Qualifying Transaction (as defined in clause (iii) below); or

(iii) the consummation of a merger, consolidation, statutory share exchange, reorganization or similar form of corporate transaction involving the Company or any of its subsidiaries that requires the approval of the Company's shareholders, whether for such transaction or the issuance of securities in the transaction (a " *Business Combination* "), unless immediately following such Business Combination: (A) more than fifty percent (50%) of the total voting power of (x) the corporation resulting from such Business Combination (the " *Surviving Corporation* "), or (y) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of one hundred percent (100%) of the voting securities eligible to elect directors of the Surviving Corporation (the " *Parent Corporation* "), is represented by Company Voting Securities that were outstanding immediately prior to such Business Combination (or, if applicable, is represented by shares into which such Company Voting Securities were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among the holders thereof immediately prior to the Business Combination, (B) no person (other than any employee benefit plan (or related trust) sponsored or maintained by the Surviving Corporation or the Parent Corporation), is or becomes the beneficial owner, directly or indirectly, of fifty percent (50%) or more of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) and (C) at least half of the members of the board of directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) following the consummation of the Business Combination were Incumbent Directors at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination (any Business Combination which satisfies all of the criteria specified in (A), (B) and (C) above will be deemed to be a " *Non-Qualifying Transaction* "); or

(iv) a change in the ownership of a substantial portion of the Company's assets which occurs on the date that any one person, or more than one person acting as a group (" *Person* ") acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than fifty percent (50%) of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions. For these purposes, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company. For purposes of this subsection (iv), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

Notwithstanding the foregoing, a Change in Control will not be deemed to occur (i) as a result of the sale, spin-off, or other divestiture of the Company's Games, SaaS, ICM and/or Rhapsody businesses; or (ii) unless such transaction qualifies as a change in control event within the meaning of Section 409A. Also, for the avoidance of doubt, a transaction will not constitute a Change in Control if: (i) its sole purpose is to change the state of the Company's incorporation, or (b) its sole purpose is to create a holding company that will be owned in substantially the same proportions by the person who held the Company's securities immediately before such transaction. Also, for the avoidance of doubt, the Company ceasing to be a publicly held corporation will not per se trigger any of the termination provisions of this Agreement.

(d) Change in Control Period . For purposes of this Agreement, " *Change in Control Period* " means the period (i) commencing three (3) months before the occurrence of a Change in Control and (ii) ending twenty-four (24) months after the Change in Control.

(e) Disability . For purposes of this Agreement, " *Disability* " means Executive is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months.

(f) Good Reason . For purposes of this Agreement, " *Good Reason* " means Executive's resignation within thirty (30) days following the expiration of any Company cure period following the occurrence of one or more of the following, without Executive's written consent:

(i) a material reduction in Executive's duties, authorities or responsibilities relative to Executive's duties, authorities or responsibilities as in effect immediately prior to the Change in Control (excluding a material reduction due to the Company ceasing to be a publicly held corporation); and for the avoidance of doubt the sale, spin-off or other divestiture of the Company's Games, SaaS, ICM and/or Rhapsody businesses will not be considered to be a material reduction in Executive's duties, authorities or responsibilities;

(ii) a material reduction in Executive's annual base compensation, provided that one or more reductions totaling ten percent (10%) or less in any two-year period will not constitute a material reduction under this clause (ii), and provided further that one or more reductions totaling more than ten percent (10%) in any two-year period will constitute a material reduction under this clause (ii);

(iii) a material reduction in Executive's annual target bonus opportunity, provided that one or more reductions totaling twenty-five percent (25%) or less in any two-year period will not constitute a material reduction under this clause (iii), and provided further that one or more reductions totaling more than twenty-five percent (25%) in any two-year period will constitute a material reduction under this clause (iii); and

(iv) a material change in the geographic location at which Executive must perform services; provided, however, that any requirement of the Company that Executive be based anywhere within fifty (50) miles from Executive's primary office location as of the date of this Agreement or within fifty (50) miles from Executive's principal residence will not constitute a material change under this clause (iv).

Executive will not resign for Good Reason without first providing the Company with written notice within ninety (90) days of the event that Executive believes constitutes "Good Reason" specifically identifying the acts or omissions constituting the grounds for Good Reason and a reasonable cure period of not less than thirty (30) days following the date of such notice.

(g) Restricted Period. For purposes of this Agreement, "*Restricted Period*" means (i) with respect to any termination of Executive's employment outside the Change in Control Period, a period of one (1) year immediately following the date of such termination; and (ii) with respect to any termination of Executive's employment within the Change in Control Period, a period of two (2) years immediately following the date of such termination.

(h) Territory. For purposes of this Agreement, "*Territory*" shall mean (i) all counties in the State of Washington, (ii) all other states of the United States of America and (iii) all other countries of the world.

13. Successors.

(a) The Company's Successors. This Agreement will be binding on any successor to the Company (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets and such successor will be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Company" will include any successor to the Company's business and/or assets which executes and delivers the assumption agreement described in this Section 13(a) or that becomes bound by the terms of this Agreement by operation of law.

(b) Executive's Successors . The terms of this Agreement and all rights of Executive hereunder will inure to the benefit of, and be enforceable by, Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

14. Notice .

(a) General . Notices and all other communications contemplated by this Agreement will be in writing and will be deemed to have been duly given when personally delivered or when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of Executive, mailed notices will be addressed to him or her at the home address which he or she most recently communicated to the Company in writing. In the case of the Company, mailed notices will be addressed to its corporate headquarters, and all notices will be directed to the attention of the Company's Chief Legal Officer or General Counsel.

(b) Notice of Termination . Any termination by the Company for Cause or by Executive for Good Reason will be communicated by a notice of termination to the other party hereto given in accordance with Section 14(a) of this Agreement. Such notice will indicate the specific termination provision in this Agreement relied upon, will set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and will specify the termination date (which will be not more than thirty (30) days after the giving of such notice). The failure by Executive to include in the notice any fact or circumstance which contributes to a showing of Good Reason will not waive any right of Executive hereunder or preclude Executive from asserting such fact or circumstance in enforcing Executive's rights hereunder. Executive further agrees that before he voluntarily terminates his employment without Good Reason, Executive will provide the Company with three (3) months notice. The Company may, at its election, direct Executive to continue to work for the Company for up to three (3) months at his then-current Base Salary. In consideration for satisfying this notice requirement and for signing and not revoking a separation and release agreement to be provided by the Company, Executive will receive a lump sum payment cash payment equal to three (3) months of Executive's then current Base Salary (assuming Executive remains an employee through end of the period specified by the Company). The lump sum cash payment will be made within ninety (90) days after the qualifying termination of employment.

15. Confidential Information . As a condition of employment, Executive agrees to execute and comply with the Company's attached form of Development, Confidentiality and Noncompetition Agreement (the " *Confidentiality Agreement* ") which requires, among other provisions, the assignment of patent rights to any invention made during Executive's employment with the Company, and nondisclosure of Company proprietary information.

16. Arbitration and Equitable Relief .

(a) Except as provided in Section 16(d) below, Executive and the Company agree that to the extent permitted by law, any dispute or controversy arising out of, relating to, or in connection with this Agreement, or the interpretation, validity, construction, performance, breach, or termination thereof will be settled by arbitration to be held in Seattle, Washington, in accordance with the procedures then in effect of the Judicial Arbitration & Mediation Services, Inc. ("*JAMS*") (the "*Rules*"). The arbitrator may grant injunctions or other relief in such dispute or controversy. The decision of the arbitrator will be final, conclusive and binding on the parties to the arbitration. Judgment may be entered on the arbitrator's decision in any court having jurisdiction.

(b) The arbitrator and/or any state or federal court will apply Washington law to the merits of any dispute or claim, without reference to rules of conflict of law. Executive hereby agrees that he will not challenge the enforceability of the non-competition clause as set forth herein based solely upon the fact that Executive may have any residence outside Washington. Executive hereby expressly consents to the personal jurisdiction of the state and federal courts located in Seattle, Washington for any action or proceeding arising from or relating to this Agreement and/or relating to any arbitration in which the parties are participants.

(c) The Company will pay the direct costs and expenses of the arbitration. The Company will also reimburse Executive's fees and expenses as incurred monthly, including reasonable attorneys' fees in connection with any dispute arising out of this agreement, provided Executive prevails on at least one material issue in such dispute, or provided an arbitrator does not determine that Executive's legal positions were frivolous or without legal foundation. In the event Executive does not so prevail or in the event of such determination, Executive will repay to the Company any amounts previously reimbursed by it, and Executive will reimburse the Company for its fees and expenses, including reasonable attorneys' fees, incurred in connection with the dispute, unless the action is one in which only a prevailing plaintiff is entitled to prevailing party fees and costs (such as in a Title VII action).

(d) Both the Company and the Executive may apply to any court of competent jurisdiction for a temporary restraining order, preliminary injunction, or other interim or conservatory relief, as necessary to enforce the provisions of the Confidentiality Agreement between Executive and the Company and/or Section 10 of this Agreement, without breach of this arbitration agreement and without abridgement of the powers of the arbitrator.

(e) EXECUTIVE HAS READ AND UNDERSTANDS SECTION 16, WHICH DISCUSSES ARBITRATION. EXECUTIVE UNDERSTANDS THAT BY SIGNING THIS AGREEMENT, EXECUTIVE AGREES TO THE EXTENT PERMITTED BY LAW, TO SUBMIT ANY FUTURE CLAIMS ARISING OUT OF, RELATING TO, OR IN CONNECTION WITH THIS AGREEMENT, OR THE INTERPRETATION, VALIDITY, CONSTRUCTION, PERFORMANCE, BREACH, OR TERMINATION THEREOF TO BINDING ARBITRATION, AND THAT THIS ARBITRATION CLAUSE CONSTITUTES A WAIVER OF EXECUTIVE'S RIGHT TO A JURY TRIAL AND RELATES TO THE RESOLUTION OF ALL DISPUTES RELATING TO ALL ASPECTS OF THE EMPLOYER/EMPLOYEE RELATIONSHIP, INCLUDING BUT NOT LIMITED TO, THE FOLLOWING CLAIMS:

(i) ANY AND ALL CLAIMS FOR WRONGFUL DISCHARGE OF EMPLOYMENT; BREACH OF CONTRACT, BOTH EXPRESS AND IMPLIED; BREACH OF THE COVENANT OF GOOD FAITH AND FAIR DEALING, BOTH EXPRESS AND IMPLIED;

NEGLIGENT OR INTENTIONAL INFLICTION OF EMOTIONAL DISTRESS; NEGLIGENT OR INTENTIONAL MISREPRESENTATION; NEGLIGENT OR INTENTIONAL INTERFERENCE WITH CONTRACT OR PROSPECTIVE ECONOMIC ADVANTAGE; AND DEFAMATION;

(ii) ANY AND ALL CLAIMS FOR VIOLATION OF ANY FEDERAL STATE OR MUNICIPAL STATUTE, INCLUDING, BUT NOT LIMITED TO, THE AMERICANS WITH DISABILITIES ACT OF 1990, THE FAIR LABOR STANDARDS ACT, AND ANY LAW OF THE STATE OF WASHINGTON; AND

(iii) ANY AND ALL CLAIMS ARISING OUT OF ANY OTHER LAWS AND REGULATIONS RELATING TO EMPLOYMENT OR EMPLOYMENT DISCRIMINATION.

17. Miscellaneous Provisions .

(a) Waiver . No provision of this Agreement will be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by Executive and by an authorized Director or authorized officer of the Company (other than Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party will be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(b) Headings . All captions and section headings used in this Agreement are for convenient reference only and do not form a part of this Agreement.

(c) Entire Agreement . This Agreement, together with the Confidentiality Agreement and any form of stock option agreements necessary to reflect the Stock Option, constitutes the entire agreement of the parties hereto and supersedes in their entirety all prior representations, understandings, undertakings or agreements (whether oral or written and whether expressed or implied) of the parties with respect to the subject matter hereof, including specifically the offer letter and terms of executive employment agreement previously entered into between Executive and the Company, which was dated October 18, 2011. No waiver, alteration, or modification of any of the provisions of this Agreement will be binding unless in writing and signed by duly authorized representatives of the parties hereto and which specifically mention this Agreement. In the event of a termination of Executive's employment in the circumstances described in Section 8 or Section 9 of this Agreement, the provisions of this Agreement are intended to be and are exclusive and in lieu of and supersede any other rights or remedies to which Executive or the Company otherwise may be entitled, whether at law, tort or contract or in equity. Executive will be entitled to no benefits, compensation or other payments or rights upon termination of employment other than those benefits expressly set forth in this Agreement.

(d) Choice of Law . The validity, interpretation, construction, and performance of this Agreement will be governed by the laws of the State of Washington (with the exception of its conflict of laws provisions). Subject to the arbitration provisions herein, any claims or legal actions by one party against the other arising out of the relationship between the parties contemplated herein (whether or not arising under this Agreement) will be commenced or maintained in any state or federal court located in the jurisdiction where Executive resides, and Executive and the Company hereby submit to the jurisdiction and venue of any such court.

(e) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement will not affect the validity or enforceability of any other provision hereof, which will remain in full force and effect.

(f) Withholding. All payments made pursuant to this Agreement will be subject to withholding of applicable income and employment taxes.

(g) Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

(h) Attorney Fees. The Company shall reimburse Executive for reasonable fees and expenses of Executive's legal counsel (up to $10,000) incurred in connection with the negotiation and execution of this Agreement.

(i) Legal Expenses. In the event that Executive's employment terminates during the Change in Control Period and the Company or Executive brings an action to enforce or effect its or his rights under this Agreement, then, without regard to the reason or reasons resulting in the termination of Executive's employment with the Company, the Company will reimburse Executive for his costs and expenses incurred in connection with the action (including, without limitation, in connection with Executive defending himself against an action brought by the Company to enforce or effect its rights under this Agreement), including (but not limited to) the costs of mediation, arbitration, litigation, court fees, expert fees, witness expenses, and reasonable attorneys' fees. Executive's costs and expenses (as described above) will be paid to him by the Company in advance of the final disposition of the underlying action and within thirty (30) days of Executive's submission of documentation of the costs, expenses and fees to be reimbursed but no later than the last day of Executive's taxable year that immediately follows the taxable year in which the costs or expenses were incurred. This right to reimbursement will be subject to the following additional requirements: (i) Executive must submit documentation of the costs, expenses and fees to be reimbursed within thirty (30) days of the end of his taxable year in which the costs, expenses and fees were incurred; (ii) the amount of any reimbursement provided during one taxable year will not affect any expenses eligible for reimbursement in any other taxable year; and (iii) the right to any such reimbursement will not be subject to liquidation or exchange for another benefit or payment. With respect to an action originally initiated by Executive, Executive agrees to repay the Company all costs and expenses advanced under this Section 17(i) in the event that it is ultimately determined by an entity of competent jurisdiction that Executive did not prevail on at least one material issue in such action.

(j) Indemnification and D&O Insurance. Subject to applicable law, Executive will be provided indemnification to the maximum extent permitted by the Company's and its subsidiaries' and affiliates' Articles of Incorporation or Bylaws, including, if applicable, any directors and officers insurance policies, with such indemnification to be on terms determined by the Board or any of its committees, but on terms no less favorable than provided to any other Company executive officer or director and subject to the terms of any separate written indemnification agreement.

(k) Non-Disparagement. For the same period (if any) for which Executive is subject to the non-disparagement restrictions under Section 10(b)(ii) of this Agreement, the Company will instruct its officers and directors to refrain from any disparaging statements about Executive; provided, however, that the foregoing requirement under this Section 17(k) will not apply to any statements that the Company's officers and directors make in addressing any statements made by Executive or his representatives so long as the statements are, in the good faith judgment of the officer or director, truthful; and provided further that the requirements of this Section 17(k) shall not apply to truthful testimony that any officer or director is required by law to provide, including in response to subpoena.

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IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year set forth above.

COMPANY	REALNETWORKS, INC.	
	By:	/s/ Robert Glaser
	Title:	Chairman of the Board of Directors
EXECUTIVE	By:	/s/ Thomas Nielsen

EXHIBIT A

FORM OF RELEASE AGREEMENT

Executive agrees that the Severance Consideration represents settlement in full of all outstanding obligations owed to Executive by the Company and its current and former officers, directors, employees, agents, investors, attorneys, shareholders, administrators, affiliates, benefit plans, plan administrators, insurers, trustees, divisions, and subsidiaries, and predecessor and successor corporations and assigns (collectively, the "Releasees"). Executive, on his own behalf and on behalf of his respective heirs, family members, executors, agents, and assigns, hereby and forever releases the Releasees from, and agrees not to sue concerning, or in any manner to institute, prosecute, or pursue, any claim, complaint, charge, duty, obligation, or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, that Executive may possess against any of the Releasees arising from any omissions, acts, facts, or damages that have occurred up until and including the date Executive signs this Agreement, including, without limitation:

a. any and all claims relating to or arising from Executive's employment relationship with the Company and the termination of that relationship;

b. any and all claims relating to, or arising from, Executive's right to purchase, or actual purchase of shares of stock of the Company, including, without limitation, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law;

c. any and all claims under the law of any jurisdiction including, but not limited to, wrongful discharge of employment; constructive discharge from employment; termination in violation of public policy; discrimination; harassment; retaliation; breach of contract, both express and implied; breach of covenant of good faith and fair dealing, both express and implied; promissory estoppel; negligent or intentional infliction of emotional distress; fraud; negligent or intentional misrepresentation; negligent or intentional interference with contract or prospective economic advantage; unfair business practices; defamation; libel; slander; negligence; personal injury; assault; battery; invasion of privacy; false imprisonment; conversion; and disability benefits;

d. any and all claims for violation of any federal, state, or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964; the Civil Rights Act of 1991; the Rehabilitation Act of 1973; the Americans with Disabilities Act of 1990; the Equal Pay Act; the Fair Labor Standards Act, except as prohibited by law; the Fair Credit Reporting Act; the Age Discrimination in Employment Act of 1967; the Older Workers Benefit Protection Act; the Employee Retirement Income Security Act of 1974; the Worker Adjustment and Retraining Notification Act; the Family and Medical Leave Act, except as prohibited by law; the Sarbanes-Oxley Act of 2002; the Uniformed Services Employment and Reemployment Rights Act; Washington State Law Against Discrimination, as amended (Wash. Rev. Code §§ 49.60.010 et seq.); Washington Equal Pay Law, as amended (Wash. Rev. Code § 49.12.175); Washington sex discrimination law (Wash. Rev. Code § 49.12.200); Washington age discrimination law (Wash. Rev. Code § 49.44.090); Washington whistleblower protection law (Wash. Rev. Code §§ 49.60.210, 49.12.005, and 49.12.130); Washington genetic testing protection law (Wash. Rev. Code § 49.44.180); Washington Family Care Act (Wash. Rev. Code § 49.12.270); Washington Minimum Wage Act (Wash. Rev. Code §§ 49.46.005 to 49.46.920); Washington wage, hour, and working conditions law (Wash. Rev. Code §§ 49.12.005 to 49.12.020, 49.12.041 to 49.12.050, 49.12.091, 49.12.101, 49.12.105, 49.12.110, 49.12.121, 49.12.130 to 49.12.150, 49.12.170, 49.12.175, 49.12.185, 49.12.187, 49.12.450); Washington wage payment law (Wash. Rev. Code §§ 49.48.010 to 49.48.190).;

freely and voluntarily chosen to waive the time period allotted for considering this Release Agreement. Executive acknowledges and understands that revocation must be accomplished by a written notification to the Company's Corporate Secretary at 2601 Elliott Avenue, Seattle, Washington, 98121, that is received prior to the Effective Date. The Parties agree that changes to this Agreement, whether material or immaterial, do not restart the running of the 21-day period.

Unknown Claims. Executive acknowledges that he has been advised to consult with legal counsel and that he is familiar with the principle that a general release does not extend to claims that the releaser does not know or suspect to exist in his favor at the time of executing the release, which, if known by him, must have materially affected his settlement with the released party. Executive being aware of said principle agrees to expressly waive any rights he may have to that effect, as well as under any other statute or common law principles of similar effect.

IN WITNESS WHEREOF, the Parties have executed this Release Agreement on the respective dates set forth below.

Thomas Nielsen, an individual

Dated: ______________________ ______________________
Executive

REALNETWORKS, INC.

Dated: ______________________ By ______________________

REALNETWORKS, INC. DEVELOPMENT, CONFIDENTIALITY AND NONCOMPETITION AGREEMENT

THIS AGREEMENT is made and entered into as of November 9, 2011, by and between RealNetworks, Inc. ("Real") and Thomas Nielsen ("You"). "Real" means RealNetworks, Inc. and all of its present and future subsidiaries and related entities including partnerships in which Real is a member.

In consideration of your employment, compensation, benefits, access to Real training, Trade Secrets and Confidential Information, and the mutual promises made herein, you and Real agree as follows:

1. Company Property. "Company Property" means all records, files, notebooks, manuals, objects, devices, supplies, materials, recordings, drawings, models, computer programs, prototypes, equipment, inventory and other materials, or copies thereof, in electronic or paper form, that have been created, used or obtained by Real, as well as Trade Secrets, Confidential Information and Employee Developments and all business revenues and fees produced or transacted through your efforts. You agree that all Company Property is and shall remain the property of Real. You will preserve and use the Company Property only for the benefit of Real and Real's business, and you will return all Company Property to Real upon Real's request or upon termination of your employment (whether voluntary or involuntary).

2. Confidential Information and Employee Developments.

As used in this Agreement, the following terms shall have the meanings shown.

"Employee Development" means all technological, financial and operating ideas, processes, and materials, including all inventions, discoveries, concepts, ideas, enhancements to existing technology or business processes, computer program ideas and expressions, computer circuit designs, computer hardware concepts and implementations, formulae, algorithms, techniques, written materials, graphics, photographs, literary works, and any other ideas or original works of authorship relating to software or hardware development that you may develop or conceive of while employed by Real, alone or with others and which (i) relate directly to Real's actual or demonstrably anticipated business or (ii) incorporate or are developed using Trade Secrets or Confidential Information or (iii) are conceived or developed with the use of any Real equipment, supplies or facilities including Real personnel or (iv) result from work performed by you for Real, regardless of whether it is technically eligible for protection under patent, copyright, or trade secret law.

"Trade Secret " means the whole or any portion of any scientific or technical information that is valuable and not generally known to competitors of Real. Trade Secrets include without limitation the specialized information and technology that Real may develop or acquire with respect to program materials (including without limitation program and project ideas, source and object code, Codecs, program listings, programming notes and documentation, flow-charts, and system and user documentation), system designs, operating processes, know-how, equipment designs, blue prints and product specifications.

"Confidential Information" means any data or information, other than Trade Secrets, which has been discovered, developed (including information conceived or developed by you) or has otherwise become known to Real, including any parent, subsidiary, predecessor, successor or otherwise affiliated company ("Real Company"), that is material to Real Company and not generally known to the public. Confidential Information includes without limitation:

i. Sales records, profits and performance reports, pricing manuals and lists, sales manuals and lists, training materials, selling and pricing procedures, and financing methods of Real Company.

ii. Customer lists or accounts, special requirements of particular customers, and current and anticipated requirements of customers generally for the products of Real Company;

iii. Research and development and specifications of any new products or lines of business under development or consideration;

iv. Sources of supply of integrated components and materials used for production, assembly, and packaging by Real Company, and the quality, price, and usage of such components and materials;

v. Marketing plans, strategies, sales and product development data, and inventions;

vi. Business plans and internal financial statements and projections of Real Company; and

vii. Personnel related information such as employees' compensation, performance reviews, or other individually identifiable information.

You recognize and acknowledge that Real Company is engaged in a continuous program of research, development and production respecting its software products, its other business opportunities and for its customers. Important assets of Real Company are its Confidential Information, Trade Secrets and Employee Developments. You recognize that Real Company has a vital and substantial interest in maintaining confidentiality of Trade Secrets and Confidential Information to maintain a stable work force, continuing positive business relationships and minimizing damage to or interference with business. You also recognize and acknowledge that your employment exposes you to programming, concepts, designs and other information proprietary to Real Company and third parties with whom Real does business, and creates a relationship of trust and confidence between you and Real with respect to any such information.

Obligations with Respect to Employee Developments . All Employee Developments shall be considered works made for hire by you for Real and prepared within the scope of your employment. Under U.S. Copyright Law, all such materials shall, upon creation, be owned exclusively by Real. To the extent that any such material, under applicable law, shall be deemed not to be works made for hire, you hereby assign to Real all right, title and interest in and to such materials, in the United States and foreign countries, without further consideration, and Real shall be entitled to register and hold in its own name all copyrights, patents and trademarks in respect to such materials. You agree to promptly and completely disclose in writing to Real details of all original works of your authorship, discoveries, concepts, or ideas. You agree to apply, at Real's request and expense, for any patent or other legal protection of Employee Developments and to sign and deliver any applications, assignments or other documents as Real may reasonably require. Real shall have the exclusive right to all Employee Developments without additional consideration to you, including but not limited to the right to own, make, use, sell, have made, rent, lease, lend, copy, prepare derivative works of, perform or display publicly.

Your Own Personal Inventions . You shall not be required to assign to Real any of your rights in any personal invention you developed entirely on your own time without using Real's equipment, supplies, facilities, Trade Secrets or Confidential Information, except for those inventions that either: (1) relate at the time of conception or reduction to practice of the invention directly to Real's actual or demonstrably anticipated business or (2) result from any work performed by you for Real. You acknowledge notice by Real that the prior paragraph does not apply to any personal invention as described in this paragraph. You agree that this satisfies the requirements of Washington state law.

Restrictions on Use and Disclosure of Trade Secrets and Confidential Information. During your employment with Real and for so long thereafter as the information remains a Trade Secret or Confidential Information, you shall not use, reproduce, disclose, or permit any person to obtain or use any Trade Secret or Confidential Information of Real (whether or not it is in written or tangible form), except as specifically authorized in writing by Real. You shall use the highest degree of care in safeguarding Trade Secrets and Confidential Information against loss, theft, or other inadvertent disclosure. You further agree that any Trade Secrets, Confidential Information, copyrightable works or materials or copies of them that enter into your possession, by reason of employment, are the sole property of Real and shall not be used in any manner adverse to Real's best interests. You agree not to remove any Confidential Information or Trade Secret from Real's premises except in pursuit of Real's business.

Upon Real's request at any time, or upon your termination of employment (whether voluntary or involuntary), you shall deliver to Real, and shall not retain for your own or another's use, any and all originals or copies of Employee

Developments, Trade Secrets, Confidential Information and Company Property. Your obligations under this Agreement supplement and do not supersede or limit other obligations you have to Real or rights or remedies of Real including without limitation those under the Washington Uniform Trade Secrets Act.

3. **Your Warranties.** You agree to perform at all times faithfully, industriously and to the best of your ability all duties and functions consistent with your position and to abide by any general employment guidelines or policies adopted by Real. You acknowledge that your employment is in no way conditioned upon your disclosure to Real of confidential information or trade secrets of others, and you agree not to improperly obtain, disclose to Real, or induce Real to use, any confidential information or trade secrets belonging to any third party. You represent that the execution of this Agreement, your employment with Real, and the performance of your proposed duties to Real will not violate any agreements or obligations you may have to any former employer or third party and you are not subject to any restrictions which would prevent or limit you from carrying out your duties for Real.

4. **Non-Competition.** You acknowledge that Real is engaged in a highly competitive business and that by virtue of the position in which you are employed, you will perform services that are of competitive value to Real and which if used in competition with Real could cause it serious harm. Therefore, you agree not to work for any Competitor during your employment with Real (including after work hours, weekends and vacation time), even if only organizational assistance or limited consultation is involved. During your employment with Real, you agree not to publish, design or develop computer software that competes with Real software products (either existing or under development).

6. **Return of Property.** You represent that you will return to Real all company-owned property in your possession or control, including but not limited to credit cards, keys, access cards, company-owned equipment, computers and related equipment, customer lists, files, memoranda, documents, price lists, and all other trade secrets and/or confidential Real information, and all copies thereof, whether in electronic or other form.

7. **Deductions from Pay**. To the maximum extent permitted by law, you authorize Real to deduct from your compensation the value of any Company Property not returned or the amount of any sums owed to Real by you, and you release Real from any claims based upon such withholding.

8. **Miscellaneous.** This Agreement together with your Employment Agreement constitute the complete and entire agreement between us, and supersedes and cancels all prior understandings, correspondence and agreements, oral and written, express or implied, between us relating to the subject matter hereof. This Agreement can only be amended or waived by a written document signed by Real and you. The waiver of any breach of this Agreement, or the failure to enforce any provision, shall not waive any later breach. Real and you both consent to the other giving third parties notification of the existence and terms of this Agreement. This Agreement shall become effective only when executed by Real and then shall be binding upon and inure to the benefit of Real and you, and each of our successors, assigns, heirs or legal representatives, except that you may not assign or delegate any rights or duties under this Agreement. This Agreement will be interpreted and enforced in accordance with the laws of the State of Washington as applied to agreements made and performed in Washington, without regard to the State's conflict of laws provisions. Jurisdiction and venue in any proceeding either at law or in equity, of or relating to this Agreement shall be in King County, Washington. You agree that Real may be irreparably harmed by a breach by you of this Agreement, that adequate remedies may not exist in law, and that Real shall be entitled to bring an action for a preliminary or permanent injunction or restraining order to enforce this Agreement. You acknowledge that your experience and capabilities are such that an injunction to enforce this Agreement will not prevent you from earning a reasonable livelihood. Your claims against Real shall not be a defense to Real's enforcement of this Agreement. In case any term in this Agreement shall be held invalid, illegal or unenforceable in whole or in part, the validity of the remaining terms of the Agreement shall not be affected.

You acknowledge that you have read this Agreement, have had an opportunity to have it explained to you, understand its provisions and have received an exact copy of it for your records. You further understand that your employment relationship with Real is at will and nothing in this Agreement suggests or signifies otherwise.

IN WITNESS WHEREOF, the parties have executed this Agreement the day and year first written above.

REALNETWORKS, INC.	**THOMAS NIELSEN**
By: /s/ Robert Glaser	Signature: /s/ Thomas Nielsen
Name: Robert Glaser	Printed Name: Thomas Nielsen
Title: Chairman of the Board of Directors	

Exhibit 10.43

AMENDED AND RESTATED STOCKHOLDER AGREEMENT

among

RHAPSODY INTERNATIONAL INC.,

REALNETWORKS, INC.,

REALNETWORKS DIGITAL MUSIC OF CALIFORNIA, INC.,

VIACOM INTERNATIONAL INC.,

NAPSTER, LLC,

BEST BUY CO., INC.

and

DMS HOLDCO INC.

Dated as of November 30, 2011

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AMENDED AND RESTATED STOCKHOLDER AGREEMENT, dated as of November 30, 2011, among RHAPSODY INTERNATIONAL INC., a Delaware corporation (the " Company "), RealNetworks, Inc., a Washington corporation (" RN Parent "), RealNetworks Digital Music of California, Inc., a California corporation (" RN Sub "), Viacom International Inc., a Delaware corporation (" MTVN Parent "), on behalf of its MTV Networks Division, DMS Holdco Inc., a Delaware corporation (" MTVN Sub ") and Napster, LLC, a Delaware limited liability company (" Napster ") and Best Buy Co., Inc., a Minnesota corporation (" Napster Parent ").

RECITALS

WHEREAS, the Company was first formed as a limited liability company under Delaware law on August 16, 2007 under the name "Rhapsody America LLC" and was converted to a corporation under the name "Rhapsody International Inc." by the filing of its Certificate of Conversion and Certificate of Incorporation with the Secretary of State of the State of Delaware on March 31, 2010;

WHEREAS, MTVN Sub and RN Sub have entered into the Transaction, Contribution and Purchase Agreement dated as of February 9, 2010 (the " Transaction Agreement ") to effect the transfer and contribution of certain assets to the Company;

WHEREAS, the Company, Napster Parent, Napster and Napster, Inc. have entered into the Asset Purchase Agreement dated as of October 3, 2011 (the " Asset Purchase Agreement ") pursuant to which Napster has purchased shares of the Class A Common Stock;

WHEREAS, as of the date hereof, (i) MTVN Sub and Napster own the Company's Class A common stock, par value $0.01 per share (" Class A Stock ") and (ii) RN Sub owns the Company's preferred stock, par value $0.01 per share (" Preferred Stock " and together with Class A Stock, " Voting Stock ") in the amounts set forth opposite their respective names on Schedule A attached hereto;

WHEREAS, each of the parties hereto desires to enter into this Agreement (as defined below) in order to establish certain rights and obligations of RN Sub, MTVN Sub, Napster and the Other Stockholders as holders of Voting Stock; and

WHEREAS, this Agreement shall amend and restate in its entirety the existing Stockholder Agreement (the " Original Stockholder Agreement "), dated as of March 31, 2010, among the Company, RN Parent, RN Sub, MTVN Parent and MTVN Sub.

NOW, THEREFORE, in consideration of the foregoing and the respective covenants and agreements set forth herein, and intending to be legally bound hereby, the parties hereto agree as follows:

ARTICLE I

Definitions

Section 1.01. Certain Defined Terms . As used in this Agreement:

" Adoption Agreement " has the meaning assigned to such term in Section 3.02(a)(i).

" Affiliate " of any specified Person means any other Person directly or indirectly Controlling, Controlled by or under direct or indirect common Control with such specified Person; provided that the Company and its Subsidiaries shall not be deemed to be an Affiliate of any Stockholder or Parent; provided , further, that "Affiliate", when used with respect to MTVN Sub or MTVN Parent or any of their Affiliates, shall only mean Viacom Inc., a Delaware corporation, and any direct or indirect Subsidiaries of Viacom Inc. and shall not include any direct or indirect stockholder of Viacom Inc. or any of their Affiliates other than Viacom Inc. and any direct or indirect Subsidiaries of Viacom Inc.; provided , further, that "Affiliate", when used with respect to RN Parent or RN Sub or any of their Affiliates, shall only mean RN Parent and any direct or indirect Subsidiaries of RN Parent and shall not include any direct or indirect stockholder of RN Parent or any of their Affiliates other than any direct or indirect Subsidiaries of RN Parent; provided , further, that "Affiliate", when used with respect to Napster Parent or Napster or any of their Affiliates, shall only mean Napster Parent and any direct or indirect Subsidiaries of Napster Parent and shall not include any direct or indirect stockholder of Napster Parent or any of their Affiliates other than any direct or indirect Subsidiaries of Napster Parent.

" Agreement " means this Amended and Restated Stockholder Agreement, as it may be amended, supplemented, restated or modified from time to time.

" Asset Purchase Agreement " has the meaning set forth in the recitals of this Agreement.

" Board " means the Board of Directors of the Company.

" Business Day " means any day that is not a Saturday, a Sunday or a U.S. Federal holiday.

" By-laws " means the By-laws of the Company, as amended or restated from time to time.

" Charter " means the Certificate of Incorporation of the Company, as amended or restated from time to time.

" Class A Stock " has the meaning set forth in the recitals of this Agreement.

" Class B Stock " means the Company's Class B common stock, par value $0.01 per share.

" Common Stock " means Class A Stock and Class B Stock, collectively.

" Control " means, with respect to any Person, the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through ownership of securities or partnership, membership, limited liability company, or other ownership interests, by contract or otherwise, and the terms " Controlling " and " Controlled " have meanings correlative to the foregoing.

" Deemed Liquidation Event " has the meaning assigned to such term in the Charter.

" Deferral Period " has the meaning assigned to such term in Section 6.06.

" Demand Registration " has the meaning assigned to such term in Section 6.01.

" Director " means any member of the Board.

" Drag-Along Notice " has the meaning assigned to such term in Section 3.06.

" Drag-Along Party " has the meaning assigned to such term in Section 3.06.

" Drag-Along Price " has the meaning assigned to such term in Section 3.06.

" Drag-Along Purchaser " has the meaning assigned to such term in Section 3.06.

" Drag-Along Right " has the meaning assigned to such term in Section 3.06.

" Drag-Along Terms " has the meaning assigned to such term in Section 3.06.

" Equity Security " means (i) any common stock, preferred stock or other capital stock, (ii) any securities convertible into or exchangeable for common stock, preferred stock or other capital stock or (iii) any options, rights or warrants (or any similar securities) to acquire common stock, preferred stock or other capital stock.

" Exchange Act " means the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder, as amended.

" GAAP " means generally accepted accounting principles in the United States.

" Indebtedness " means, with respect to any Person, all obligations of such Person (i) for borrowed money or funded indebtedness or issued in substitution for or exchange for borrowed money or funded indebtedness (including obligations with respect to principal, accrued interest, and any applicable prepayment charges or premiums and any unpaid fees, expenses or other monetary obligations in respect thereof); (ii) evidenced by notes, bonds, debentures, mortgages or similar instruments; and (iii) all obligations of the types described in clauses (i) and (ii) above of any other individual or entity, the payment of which is guaranteed or is subject to contingent guarantee, directly or indirectly, by such Person or is secured by a pledge, mortgage, encumbrance or other Lien of any kind or character on any property or asset of such Person (whether or not such obligation is assumed by such Person).

" Indemnified Persons " has the meaning assigned to such term in Section 6.08(a).

" Independent Director " means a Director who (i) qualifies as an "independent director" of the Company under (a) NYSE Rule 303A(2), as such Rule may be amended, supplemented or replaced from time to time or (b) any comparable rule or regulation of a primary securities exchange or quotation system, (ii) is identified as independent upon the mutual agreement of RN Stockholder and MTVN Stockholder or (iii) is the Chief Executive Officer or the highest-ranking officer of the Company as set forth in the proviso to Section 2.01(a)(iii).

" Inspectors " has the meaning assigned to such term in Section 6.04(a)(vii).

" Initiating Holders " has the meaning assigned to such term in Section 6.01(a).

" Initiating Stockholder " has the meaning assigned to such term in Section 3.05(a).

" Issuer FWP " has the meaning assigned to "issuer free writing prospectus" in Rule 433 under the Securities Act.

" Lien " means any pledge, encumbrance, security interest, purchase option, call or similar right.

" MTVN Designees " has the meaning assigned to such term in Section 2.01(a)(ii).

" MTVN Music Group " has the meaning assigned to such term in the Audio Music Service Brand and Content License, Distribution and Advertising Agreement dated as of August 20, 2007, by and between MTVN Parent and the Company, as such agreement may be amended, supplemented, restated or modified from time to time.

" MTVN Stockholder " means MTVN Sub and shall include any successor to MTVN Sub, or any assignee of MTVN Sub pursuant to Section 3.02(a)(i).

" Napster Stockholder " shall mean Napster and shall include any successor to Napster, or any assignee of Napster pursuant to Section 3.02(a)(i).

" New Securities " has the meaning assigned to such term in Section 3.07(b).

" Non-initiating Stockholder " has the meaning assigned to such term in Section 3.05(a).

" Offered Price " has the meaning assigned to such term in Section 3.05(b).

" Offered Stock " has the meaning assigned to such term in Section 3.05(a).

" Original Stockholder Agreement " has the meaning set forth in the recitals of this Agreement.

" Original Stockholder " has the meaning assigned to such term in Section 3.06.

" Other Stockholder " has the meaning assigned to such term in Section 7.13.

" Parent " means (i) in the case of RN Sub, RN Parent, (ii) in the case of MTVN Sub, MTVN Parent and (iii) in the case of any other Stockholder, such Stockholder's direct or indirect ultimate Controlling Person at the time such Stockholder becomes a Stockholder (except to the extent such Stockholder is an Affiliate of MTVN Parent, in which case the Parent of such Stockholder shall continue to mean MTVN Parent).

" Participating Stockholder " means any Stockholder participating in a given registered offering by offering Registrable Securities pursuant to Section 6.01 or Section 6.02.

" Participation Stockholder " has the meaning assigned to such term in Section 3.07(a).

" Person " means any individual, firm, corporation, partnership, limited liability company, trust, joint venture, governmental authority or other entity.

" Piggyback Registration " has the meaning assigned to such term in Section 6.02.

" Preferred Stock " has the meaning set forth in the recitals of this Agreement.

" Public Offering " shall mean the completion of a sale of common stock pursuant to a registration statement which has become effective under the Securities Act (excluding registration statements on Form S-4, S-8 or similar limited purpose forms), in which some or all of the Common Stock or the common stock of any Subsidiary of the Company shall be listed and traded on a national exchange or on the NASDAQ National Market System. The first such Public Offering shall be the " Company's IPO ".

" Records " has the meaning assigned to such term in Section 6.04(a)(vii).

" Registrable Securities " means (i) all shares of Class A Stock issuable upon conversion of Preferred Stock together with all shares of the Class A Stock, in each case held by Napster Stockholder, MTVN Stockholder, RN Stockholder and any Other Stockholder and (ii) other than with respect to Section 6.01, all shares of Class B Stock; provided that any such securities will cease to be Registrable Securities when (i) a Registration Statement relating to such securities has been declared effective by the SEC (or become automatically effective) and such securities have been disposed of by the applicable Stockholder pursuant to such Registration Statement or (ii) such securities have been disposed of by the applicable Stockholder pursuant to Rule 144 promulgated under the Securities Act.

" Registration Statement " has the meaning assigned to such term in Section 6.01(a).

" Requesting Stockholder " has the meaning assigned to such term in Section 4.04.

" Right of First Offer " has the meaning assigned to such term in Section 3.05(a).

" RN Designees " has the meaning assigned to such term in Section 2.01(a)(i).

"RN Stockholder" means RN Sub and shall include any successor to RN Sub, or assignee of RN Sub pursuant to Section 3.02(a)(i).

"ROFO Initiator Notice" has the meaning set forth in Section 3.05(a).

"ROFO Notice" has the meaning assigned to such term in Section 3.05(b).

"ROFO Notice Period" has the meaning assigned to such term in Section 3.05(b).

"Sale Transaction" has the meaning assigned to such term in Section 3.02(a)(iii).

"SEC" means the Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933 and the rules and regulations promulgated thereunder, as amended.

"Selling Stockholders" has the meaning set forth in Section 3.08(a).

"Stockholder" means RN Stockholder, MTVN Stockholder, Napster Stockholder and any Other Stockholder.

"Subsidiary" means, with respect to any Person, any other Person of which such Person (i) owns directly or indirectly more than fifty percent (50%) of the equity, membership interest or beneficial interest, on a consolidated basis or (ii) owns directly or controls with power to vote, directly or indirectly through one or more Subsidiaries, shares of the equity, membership interest or beneficial interest having the power to elect more than fifty percent (50%) of the directors, trustees, managers or other officials having powers analogous to that of directors of a corporation.

"Tag-Along Equity" has the meaning set forth in 3.08(c).

"Tag-Along Notice" has the meaning set forth in 3.08(a).

"Tag-Along Terms" has the meaning set forth in 3.08(a)

"Transaction Agreement" has the meaning set forth in the recitals of this Agreement.

"Transfer" means, directly or indirectly, (i) to sell, transfer, assign or similarly dispose of, whether voluntarily, involuntarily or by operation of law, (ii) to enter into an agreement to vote, consent, grant a proxy or power of attorney or deposit shares into a voting trust, or the execution of a written consent, the grant of a proxy or power of attorney or the deposit of shares into a voting trust or (iii) to enter into a contract, option or other arrangement or understanding that upon consummation or foreclosure would effect a sale, transfer, assignment or similar disposition.

" Underwriter " means a securities dealer who purchases any Registrable Securities as a principal in connection with a distribution of such Registrable Securities and not as part of such dealer's market-making activities.

" Voting Stock " has the meaning set forth in the recitals of this Agreement.

Section 1.02. Other Definitional Provisions . (a)The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Article and Section references are to this Agreement unless otherwise specified. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation".

(b) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

ARTICLE II

Corporate Governance

Section 2.01. Board Composition . (a)The number of Directors constituting the Board shall be fixed at the number that is the number of Directors that RN Stockholder and MTVN Stockholder are entitled to designate in the aggregate, from time to time, pursuant to Sections 2.01 (a)(i), (ii) and (iii) below, which number shall initially be five (5). The Board shall be composed as follows:

(i) (A) two (2) Directors designated for election to the Board by RN Stockholder for so long as RN Stockholder continues to own shares of Voting Stock representing at least twenty-five percent (25%) of the then outstanding shares of Voting Stock; or (B) if clause (A) is not applicable, one (1) Director designated for election to the Board by RN Stockholder for so long as RN Stockholder continues to own shares of Voting Stock representing at least ten percent (10%) of the then outstanding shares of Voting Stock (in each case, the " RN Designees "); the initial RN Designees are set forth on Schedule B ;

(ii) (A) two (2) Directors designated for election to the Board by MTVN Stockholder for so long as MTVN Stockholder continues to own shares of Voting Stock representing at least twenty-five percent (25%) of the then outstanding shares of Voting Stock; or (B) if clause (A) is not applicable, one (1) Director designated for election to the Board by MTVN Stockholder for so long as MTVN Stockholder continues to own shares of Voting Stock representing at least ten percent (10%) of the then outstanding shares of Voting Stock (in each case, the " MTVN Designees "); the initial MTVN Designees are set forth on Schedule C ; and

(iii) one Independent Director jointly designated by RN Stockholder and MTVN Stockholder (for so long as each of RN Stockholder and MTVN Stockholder is entitled to designate at least one Director pursuant to Sections 2.01(a)(i) and (ii)) who shall initially be the individual set forth on Schedule D hereto. If at any time RN Stockholder and MTVN Stockholder cannot agree upon the designee for Independent Director, the Independent Director shall be selected pursuant to the provision set forth in Schedule E hereto; provided, however, in the event that the existing Independent Director resigns or is removed from the Board or if the Independent Director seat is otherwise vacant, the Company's Chief Executive Officer (excluding any Person serving as the Company's interim Chief Executive Officer), or if the office of the Chief Executive Officer is vacant or not permanently filled, then the Company's highest ranking officer, shall serve as the Independent Director during such interim period.

(b) Each Stockholder agrees to vote or act by written consent with respect to (or cause to be voted or acted upon by written consent) all shares of Voting Stock then held of record by such Stockholder (x) in favor of the election to the Board of those individuals designated or nominated in accordance with Section 2.01(a) and (y) against the election to the Board of any individual not designated or nominated in accordance with Section 2.01(a); provided, however, that at the written request of either MTVN Stockholder or RN Stockholder with respect to a Director designated by such Stockholder pursuant to Section 2.01(a), each other Stockholder hereby agrees to vote or act by written consent with respect to (or cause to be voted or acted upon by written consent) all shares of Voting Stock then held of record by such Stockholder in favor of the removal from office of such Director at any meeting or upon any action by written consent called or taken for the purpose of removing such Director from office (and except as set forth in Section 2.01(d), otherwise shall not vote or act by written consent to cause the removal of such Director without cause).

(c) In the event of any vacancy in the office of Director of an RN Designee or MTVN Designee, each Stockholder agrees to vote or act by written consent with respect to (or cause to be voted or acted upon by written consent) all shares of Voting Stock then held of record by such Stockholder in favor of the election to the Board of an individual designated in writing by RN Stockholder or MTVN Stockholder, as applicable, and against the election to the Board of any individual not designated by RN Stockholder or MTVN Stockholder, as applicable. The Company and the Stockholders shall use their best efforts to fill any vacancies of the Board as soon as practicable following the date such vacancy is created.

(d) If at any time there is a reduction in the number of Directors a Stockholder has a right to designate pursuant to Sections 2.01(a)(i) and (ii), such Stockholder shall use its best efforts to cause such number of its designees to resign from the Board. If a designee fails to resign in accordance with the preceding sentence, each Stockholder agrees to vote or act by written consent with respect to (or cause to be voted or acted upon by written consent) all shares of Voting Stock then held of record by such Stockholder in favor of the removal of such Director without cause. The Company and the Stockholder shall use their best efforts to cause such action to be taken as soon as practicable following the date of decrease.

Section 2.02. Composition of Committees of the Board. The Board may from time to time designate one or more committees, each committee to consist of two (2) or more members of the Board; provided, however, that at least one RN Designee (for so long as RN Stockholder has the right to designate a Director pursuant to Section 2.01(a)(i)) and at least one MTVN Designee (for so long as MTVN Stockholder has the right to designate a Director pursuant to Section 2.01(a)(ii)) shall be entitled to representation on each committee of the Board.

ARTICLE III

Transfer of Shares

Section 3.01. Conditions to Transfer . (a)It shall be a condition to any Transfer that (i) such Transfer shall comply with the provisions of the Securities Act and applicable state securities laws and (ii) no such Transfer shall require the Company to file any report or other disclosure pursuant to the Securities Act or applicable state securities laws. Until the Transfer of any Voting Stock has been registered under the Securities Act, such Voting Stock may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws.

(b) It shall be a condition to any Transfer of any shares of Voting Stock that no applicable law or judgment issued by any governmental entity which would prohibit such Transfer shall be in effect, and all consents of, or declarations or filings with, or expirations of waiting periods imposed by, any governmental entity necessary for the consummation of such Transfer shall have been obtained or filed or shall have occurred, and the Company and each Stockholder agree to reasonably cooperate with the transferring Stockholder, at such transferring Stockholder's expense, to provide such information and make such filings as shall be necessary to satisfy as promptly as practicable the foregoing conditions in connection with a proposed Transfer; provided , however , that the Company shall not be required to make any filings pursuant to the Securities Act or any applicable state securities laws.

Section 3.02. Permitted Transfers . (a)The following Transfers shall be permitted at any time and from time to time:

(i) any Transfer by a Stockholder of all (but not less than all) of its Voting Stock to a wholly-owned Subsidiary of such Stockholder's Parent so long as such transferee continues to remain so owned and executes a counterpart of this Agreement agreeing to be bound hereby to the same extent as the transferor (an " Adoption Agreement "); provided , however , that if at any time such transferee ceases to be a wholly-owned Subsidiary of such Stockholder's Parent, then all Voting Stock held by such transferee shall be deemed to be automatically Transferred to such Parent or to another wholly-owned Subsidiary of such Parent designated by such Parent, which wholly-owned Subsidiary shall execute and deliver an Adoption Agreement; and

(ii) any Transfer by a Stockholder with the prior written consent of each of MTVN Stockholder and RN Stockholder.

(iii) Notwithstanding anything to the contrary set forth herein, the restrictions on Transfer set forth in Section 3.01(a) shall not prohibit (A) any merger, consolidation or binding share exchange with a third party, (B) sale or other disposition of all or substantially all of the equity securities or sale or other disposition of all or substantially all of the assets of RN Parent, MTVN Parent or Napster Parent, or (C) any transaction involving all or substantially all of the assets of the MTVN Music Group (each, a " Sale Transaction "); provided that (x) in the case of a Sale Transaction in which the Voting

Stock of MTVN Stockholder is Transferred, the MTVN Stockholder following such Sale Transaction shall be an entity belonging to the MTVN Music Group; (y) in the case of a Sale Transaction in which the Voting Stock of RN Stockholder is Transferred, the RN Stockholder following such Sale Transaction shall be RN Parent; and (z) in the case of a Sale Transaction in which the Voting Stock of Napster Stockholder is Transferred, the Napster Stockholder following such Sale Transaction shall be Napster Parent.

Section 3.03. Compliance with Transfer Provisions . Any Transfer or deemed Transfer or attempted Transfer or deemed Transfer of Voting Stock in violation of any provision of this Agreement shall be void, and the Company shall not record such Transfer or deemed Transfer on its books or treat any purported transferee of such Voting Stock as the owner of such Voting Stock for any purpose.

Section 3.04. Legend . (a)During the term of this Agreement, each certificate evidencing Voting Stock held of record or owned by the Stockholders shall bear the following legends:

"THE SECURITIES EVIDENCED BY THIS CERTIFICATE ARE SUBJECT TO AND TRANSFERABLE ONLY UPON COMPLIANCE WITH THE PROVISIONS OF AN AMENDED AND RESTATED STOCKHOLDER AGREEMENT, DATED AS OF NOVEMBER 30, 2011, AMONG RHAPSODY INTERNATIONAL INC., REALNETWORKS, INC., REALNETWORKS DIGITAL MUSIC OF CALIFORNIA, INC., VIACOM INTERNATIONAL INC., DMS HOLDCO INC., NAPSTER, LLC, BEST BUY CO., INC. AND THE OTHER PARTIES THERETO, AS AMENDED. A COPY OF SUCH STOCKHOLDER AGREEMENT IS ON FILE AT THE PRINCIPAL OFFICE OF RHAPSODY INTERNATIONAL INC."

"THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER, AS AMENDED, AND MAY NOT BE OFFERED OR SOLD EXCEPT IN A TRANSACTION REGISTERED UNDER SUCH ACT OR PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT."

(b) Upon a Person ceasing to have rights and obligations under this Agreement pursuant to the terms hereof or upon termination of this Agreement, such Person may surrender to the Company any certificates held of record by such Person and bearing the legend set forth in Section 3.04(a), and upon surrender of such certificates, the Company shall reissue such certificates without such legend.

Section 3.05. Right of First Offer . (a)Each of RN Stockholder, MTVN Stockholder, Napster Stockholder and any Other Stockholder agrees that it will not Transfer its Voting Stock to any Person (other than pursuant to Section 3.02) without first, so long as RN Stockholder or MTVN Stockholder, as applicable, owns at least twenty-five percent (25%) of the then outstanding shares of Voting Stock, offering to Transfer such Voting Stock to each of

RN Stockholder and MTVN Stockholder (for purposes of this Section 3.05, each, a " Non-initiating Stockholder ") (the " Right of First Offer ") (such Stockholder desiring to make any such Transfer, the " Initiating Stockholder ," the subject shares that the Initiating Stockholder seeks to Transfer, the " Offered Stock "). The Initiating Stockholder shall give written notice (the " ROFO Initiator Notice ") to the Non-initiating Stockholders of its bona fide intention to sell the Offered Stock, setting forth (i) the number of shares of Offered Stock and (ii) the material terms and conditions (other than price) upon which the Initiating Stockholder proposes to Transfer the Offered Stock.

(b) Upon receipt of the ROFO Initiator Notice, each of the Non-initiating Stockholders shall have a period of forty-five (45) days (" ROFO Notice Period ") to offer to purchase the Offered Stock by delivering a written notice (" ROFO Notice ") stating that it offers to purchase the Offered Stock on the terms specified in the ROFO Initiator Notice and designating the price that it is offering to pay, in cash, for the Offered Stock (" Offer Price "). A ROFO Notice shall be binding on the Non-initiating Stockholder upon delivery and irrevocable without the consent of the Initiating Stockholder. In the event that the Initiating Stockholder is Napster Stockholder or an Other Stockholder, RN Stockholder and MTVN Stockholder shall each be entitled to purchase their pro rata portion of the Offered Stock; provided that, if either MTVN Stockholder or RN Stockholder elects not to exercise its Right of First Offer, the other may, at its option, offer to purchase all (but not less than all) of the Offered Stock. For purposes of this Section 3.05, "pro rata portion" is the product of (i) a fraction, the numerator of which is the number of outstanding shares of Voting Stock which RN Stockholder or MTVN Stockholder, as applicable, then owns and the denominator of which is the number of outstanding shares of Voting Stock which RN Stockholder and MTVN Stockholder then own, in the aggregate, multiplied by (ii) the number of shares of Offered Stock set forth in the Initiator Notice.

(c) Within ten (10) Business Days after receipt of the ROFO Notice, the Initiating Stockholder shall indicate to the applicable Non-initiating Stockholder whether the Initiating Stockholder has accepted such Non-initiating Stockholder's offer. An acceptance shall be indicated by sending irrevocable written notice of such acceptance to the applicable Non-initiating Stockholder, and the applicable Non-initiating Stockholder shall then be obligated to purchase, and the Initiating Stockholder shall then be obligated to sell, the Offered Stock on the terms and conditions set forth in the Initiator Notice at the Offer Price.

(d) If the Initiating Stockholder does not accept any offer made by the Non-initiating Stockholders or if neither of the Non-initiating Stockholders deliver a ROFO Notice in accordance with this Section 3.05, the Initiating Stockholder may, during the ninety (90)-day period following the expiration of the ROFO Notice Period and subject to the restrictions on Transfer contained in this Article III, enter into an agreement for the Transfer of all (but not less than all) Offered Stock with any Person (i) for a price, in cash, that is greater than the Offer Price and (ii) otherwise, on terms not more favorable in any material respect to the purchaser than those specified in the Initiator Notice.

(e) If the Initiating Stockholder does not enter into an agreement for the Transfer of the Offered Stock within such ninety (90)-day period referred to in Section 3.05(d), the Right of First Offer provided hereunder shall be deemed to be revived and such Offered Stock shall not be Transferred unless first reoffered to the Non-initiating Stockholders in accordance with this Section 3.05. Notwithstanding the foregoing, the Initiating Stockholder shall not propose to Transfer the Offered Stock more than once in any twelve-month period.

(f) The closing of the purchase and sale of any Offered Stock to be acquired by any Non-initiating Stockholder pursuant to this Section 3.05 shall be held at the offices of the Company on such date and time as the parties may agree but in all events within thirty (30) days following termination of the ROFO Notice Period (which thirty (30)-day period shall be extended solely to the extent needed to obtain any required governmental approvals). At the closing of such purchase and sale, the Initiating Stockholder shall deliver an assignment agreement transferring such Offered Stock, duly executed, free and clear of any Liens, against delivery of the purchase price therefor. Each party shall bear its own expenses in connection with a purchase and sale pursuant to this Section 3.05.

Section 3.06. Drag-Along Right . (a)In the event that RN Stockholder (for so long as such Stockholder owns at least twenty-five percent (25%) of the then outstanding shares of Voting Stock) and MTVN Stockholder (for so long as such Stockholder owns at least twenty-five percent (25%) of the then outstanding shares of Voting Stock) (for purposes of this Section 3.06, each, an " Original Stockholder ") shall have jointly entered into an agreement with any Person (such Person, a " Drag-Along Purchaser ") regarding the Transfer of all of their Voting Stock, an Original Stockholder shall be entitled, at its option, to require each Stockholder holding less than fifteen percent (15%) of the then outstanding shares of Voting Stock (the " Drag-Along Party ") to include all of its Voting Stock in such sale (the " Drag-Along Right "). The Drag-Along Right shall be exercised by written notice (the " Drag-Along Notice ") to the Drag-Along Party, at least thirty (30) days prior to closing of the proposed Transfer, of the identity of the Drag-Along Purchaser, the consideration offered for the transferring Stockholder's Voting Stock (the " Drag-Along Price "), the terms of the Drag-Along Purchaser's financing (if any and if known), the anticipated date of closing of the proposed Transfer and any other material terms and conditions of the proposed Transfer (the " Drag-Along Terms "). The Drag-Along Party shall be obligated to sell all of its Voting Stock to the Drag-Along Purchaser on the Drag-Along Terms at a price equal to the product of (x) the ratio of the percentage of ownership of Voting Stock then outstanding of the Drag-Along Party over the percentage of ownership of Voting Stock then outstanding of the transferring Stockholder and (y) the Drag-Along Price; provided , however , that the holders of shares of Preferred Stock shall be entitled to be paid the amount determined pursuant to Section 3(c) of Article IV of the Charter to the extent applicable. At the closing of such Transfer (which anticipated date, place and time shall be designated in the Drag-Along Terms), the Drag-Along Party shall deliver an assignment agreement transferring all of its Voting Stock, duly executed, free and clear of any Liens, against delivery of the purchase price therefor. Each party shall bear its own expenses in connection with a Transfer pursuant to this Section 3.06.

(b)Notwithstanding the foregoing, a Drag Along Party will not be required to comply with Section 3.06(a) above in connection with any proposed Transfer of Voting Stock (the " Proposed Sale ") unless (i) the Drag Along Party shall not be liable for the inaccuracy of any representation or warranty made by any other Person in connection with the Proposed Sale, other than the Company and (ii) the liability for indemnification, if any, of such Drag Along Party in the Proposed Sale and for the inaccuracy of any representations and warranties made by the Company in connection with such Proposed Sale, is several and not joint with any other Person, and is pro rata in proportion to the amount of consideration paid to the Original Stockholders and any other Drag Along Parties in the Proposed Sale.

Section 3.07. Preemptive Right. (a)The Company hereby grants to each of RN Stockholder, MTVN Stockholder and Napster Stockholder (for purposes of this Section 3.07, each a "Participation Stockholder"), in the case of RN Stockholder or MTVN Stockholder, for so long as such Participation Stockholder continues to own at least ten percent (10%) of the then outstanding shares of Voting Stock and in the case of Napster Stockholder, for so long as Napster Stockholder owns less than (10%) of the then outstanding shares of Voting Stock, the right to purchase up to a pro rata portion of New Securities (as defined in paragraph (b) below) which the Company, from time to time, proposes to sell or issue following the date hereof. A Participation Stockholder's pro rata portion, for purposes of this Section 3.07, is equal to the product of (i) a fraction, the numerator of which is the number of outstanding shares of Voting Stock which such Participation Stockholder then owns and the denominator of which is the total number of outstanding shares of Voting Stock then held by the Participation Stockholders, in the aggregate, multiplied by (ii) the number of New Securities the Company proposes to sell or issue.

(b) "New Securities" shall mean any common stock or other equity securities of the Company whether now authorized or not, any rights, options or warrants to purchase common stock or other equity securities and any Indebtedness or preferred stock of the Company which is convertible into common stock or other equity securities (or which is convertible into a security which is, in turn, convertible into common stock or other equity securities); provided that the term "New Securities" does not include (i) Indebtedness of the Company which is not by its terms convertible into common stock; (ii) common stock issued as a stock dividend to all holders of Voting Stock and Class B Stock pro rata or upon any subdivision or combination of shares of common stock; (iii) common stock, or other equity capital exchangeable for or convertible into shares of common stock, issued to any employee or director and approved by the Board and any employee or director stock options approved by the Board; (iv) common stock issued for the acquisition of another corporation or other entity by the Company by stock purchase, merger, purchase of substantially all assets or other reorganization approved by the Board; (v) the issuance of common stock upon the exercise or conversion of any rights, options or warrants to purchase common stock outstanding prior to the issuance of New Securities; and (vi) common stock issuable in a Public Offering; and provided, further, that if any "New Securities" include common stock and other equity securities coupled as a package, "New Securities" shall mean the package of securities and not each class of securities individually.

(c) In the event the Company proposes to issue New Securities, the Company shall give each Participation Stockholder written notice of such proposal, describing the type of New Securities and the price and the terms upon which the Company proposes to issue the same. For a period of fifteen (15) Business Days following the delivery of such notice by the Company, the Company shall be deemed to have irrevocably offered to sell to each Participation Stockholder its pro rata share of such New Securities for the price and upon the terms specified in the notice. Each Participation Stockholder may exercise its rights of participation hereunder by giving written notice to the Company and stating therein the quantity of New Securities to be purchased. Each Participation Stockholder shall also be entitled to indicate a desire to purchase all or a portion of any New Securities remaining after such pro rata allocation. If, as a result of such oversubscription right, such oversubscriptions exceed the total number of New Securities available in respect of such oversubscription right, the oversubscribing Participation Stockholders shall be cut back with respect to their oversubscriptions on a pro rata basis (based on the number of outstanding shares of Voting Stock held by them at such time) or as they may otherwise agree among themselves.

(d) In the event that the Participation Stockholders fail to commit to purchase all of such New Securities within said fifteen (15)-Business Day period, the Company shall have ninety (90) days thereafter to sell the New Securities with respect to which the right of participation was not exercised, at a price and otherwise upon terms no more favorable to the purchasers thereof than specified in the Company's notice given pursuant to Section 3.07(c).

(e) The closing for any such issuance shall take place as proposed by the Company with respect to the New Securities to be issued (but in no event sooner than fifteen (15) Business Days after notice is given to each Participation Stockholder), at which closing the Company shall deliver certificates for the New Securities in the respective names of the purchasing Stockholders against receipt of payment therefor. Each party shall bear its own expenses in connection with any such issuance pursuant to this Section 3.07.

Section 3.08. Tag-Along Right. (a) Except for Transfers permitted under Section 3.02(i) and 3.02(iii), at any time, (x) for so long as each of MTVN Stockholder and RN Stockholder continue to own at least twenty-five percent (25%) of the then outstanding shares of Voting Stock, both of MTVN Stockholder and RN Stockholder seek to Transfer in any transaction or series of related transactions more than fifty percent (50%) of their respective shares of Voting Stock or (y) any Stockholders collectively seek to Transfer shares of Voting Stock in a transaction or series of related transactions that would result in the Transfer of more than fifty percent (50%) of the then outstanding shares of Voting Stock to any Person (in each case, the Stockholders seeking to make such Transfer, the " Selling Stockholders "), then so long as Napster Stockholder continues to own at least fifty percent (50%) of the shares of Voting Stock owned by Napster Stockholder on the date hereof the Selling Stockholders shall provide written notice (the " Tag-Along Notice ") to Napster Stockholder, at least thirty (30) days prior to closing of the proposed Transfer, of the identity of the prospective transferee, the consideration offered for the Selling Stockholders' Voting Stock, the terms of the prospective purchaser's financing (if any and if known), the anticipated date of closing of the proposed Transfer and any other material terms and conditions of the proposed Transfer (the " Tag-Along Terms ").

(b) Upon receipt of a Tag-Along Notice, Napster Stockholder shall have the right to participate in such proposed Transfer on the Tag-Along Terms on a pro rata basis with the Selling Stockholders (based on the number of outstanding shares of Voting Stock held by them at such time), exercisable by delivering written notice to the Selling Stockholders within 10 Business Days from the date of receipt of the Tag-Along Notice. The right of Napster Stockholder pursuant to this Section 3.08(b) shall terminate with respect to that proposed Transfer if not exercised within such 10-Business Day period.

(c) Following the expiration of the 10-Business Day period referred to in Section 3.08(b), if Napster Stockholder shall have exercised its right to participate in such Transfer pursuant to Section 3.08(b), Napster Stockholder shall notify the Selling Stockholders of the amount of Voting Securities which Napster Stockholder has elected to include in the proposed Transfer (up to the pro rata allocation described in Section 3.08(b)) (the " Tag-Along Equity "). The Selling Stockholders shall then be entitled and obligated to sell to the prospective transferee such Tag-Along Equity on the Tag-Along Terms with Napster Stockholder being subject, on a several and not a joint basis, to the same representations and warranties and covenants, and its pro rata proportion of any indemnities, holdback and escrow provisions, and any similar components of the Tag-Along Terms to which the Selling Stockholders are subject.

(d) At the closing of the proposed Transfer (which date, place and time shall be designated by the Selling Stockholders in the Tag-Along Notice), Napster Stockholder shall deliver an assignment agreement Transferring all of its Tag-Along Equity, duly executed by Napster Stockholder, free and clear of any liens, and any other documentation reasonably requested by MTVN Stockholder and RN Stockholder, against delivery of the purchase price therefor. Each party shall bear its own expenses in connection with a Transfer pursuant to this Section 3.08.

(e) In the event that, following delivery of a Tag-Along Notice, the 10-Business Day period set forth in Section 3.08(b) shall have expired without any exercise of the rights under Section 3.08(b) by Napster Stockholder, the Selling Stockholders shall have the right, during the 90-day period following the expiration of such 10-day period, to Transfer to the prospective transferee the offered Voting Securities on the Tag-Along Terms. In the event that the Selling Stockholders shall not have consummated such Transfer within such 90-day period, any subsequent Transfer of the Voting Securities shall once again be subject to the terms of this Section 3.08.

ARTICLE IV

Additional Covenants

Section 4.01. Actions Requiring Consent of RN Stockholder and MTVN Stockholder . For so long as RN Stockholder owns shares of Voting Stock of the Company representing at least twenty-five percent (25%) of the then outstanding shares of Voting Stock, without the approval of RN Stockholder, and for so long as MTVN Stockholder owns shares of Voting Stock of the Company representing at least twenty-five percent (25%) of the then outstanding shares of Voting Stock, without the approval of the MTVN Stockholder, no action shall be taken (either directly or indirectly by amendment, merger, consolidation or otherwise) by the Company or any Subsidiary thereof, or any director, officer, agent or employee of the Company or its Subsidiaries, which would cause or permit any:

(a) amendment, modification, termination or waiver of any provision of the Charter or By-laws, including any increase or decrease in the number of authorized shares of any class of the Company's stock;

(b) issuance, sale, repurchase or retirement of any equity security or options or rights to acquire any equity security of the Company or any Subsidiary of the Company, including all terms and conditions in respect thereof; provided that this provision shall not apply with respect to issuances pursuant to the Company's equity compensation plan of up to 34,000,000 shares of Class B Stock;

(c) incurrence or material modification of any Indebtedness of the Company or any Subsidiary of the Company, in the aggregate, in excess of $10 million in any fiscal year;

(d) (i) merger, consolidation, share exchange or sale (in one or a related series of transactions) of all or substantially all of the assets of the Company and any Subsidiary of the Company or (ii) sale or acquisition (in one or a related series of transactions) by the Company or any Subsidiary of the Company of any businesses with a sale or acquisition price in excess of $10 million;

(e) dissolution, liquidation, bankruptcy or reorganization of the Company or any Subsidiary of the Company;

(f) change in the terms, designations, powers, classification, preferences or other special rights, or the qualifications, limitations or restrictions, of equity securities of the Company;

(g) entrance into any transaction with (i) any Director or officer of the Company, (ii) RN Stockholder or any of its Affiliates, employees, directors or officers or (iii) MTVN Stockholder or any of its Affiliates, employees, directors or officers;

(h) a Public Offering of the Company or any Subsidiary thereof or any successor entity thereof; or

(i) entrance into any contract or taking of any action for the purpose of effecting any of the foregoing.

Section 4.02. Information Rights. From and after the date hereof, for so long as any Stockholder holds at least seven and one half percent (7.5%) of the then outstanding shares of Voting Stock, such Stockholder shall be entitled to receive from the Company the following information:

(a) as soon as available after the end of each fiscal year of the Company, and in any event within fifty (50) days after the end of each fiscal year of the Company, an audited consolidated balance sheet of the Company and its Subsidiaries as at the end of such year and audited consolidated statements of income, retained earnings and cash flows of the Company and its Subsidiaries for such year, certified by certified public accountants of established national reputation selected by the Company, which shall initially be KPMG LLP, and prepared in accordance with GAAP;

(b) as soon as available after the end of each fiscal quarter of the Company (other than the fourth quarter), and in any event within thirty (30) days after the end of each fiscal quarter of the Company (other than the fourth quarter), an unaudited consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter, and unaudited consolidated statements of income, retained earnings and cash flows of the Company and its Subsidiaries for such fiscal quarter and for the current fiscal year to the end of such fiscal quarter, prepared in accordance with GAAP (subject to normal year-end audit adjustments and the absence of notes thereto); and

(c) as soon as available after the end of each calendar month and in any event (i) within five (5) Business Days thereafter, a preliminary unaudited consolidated balance sheet of the Company and its Subsidiaries as at the end of such month, and preliminary unaudited consolidated statement of income of the Company and its Subsidiaries for such month, prepared in accordance with GAAP (subject to normal year-end audit adjustments and the absence of notes thereto), (ii) within ten (10) Business Days thereafter, a final unaudited consolidated balance sheet of the Company and its Subsidiaries as at the end of such month, and final unaudited consolidated statement of income of the Company and its Subsidiaries for such month, prepared in accordance with GAAP (subject to normal year-end audit adjustments and the absence of notes thereto) and (iii) within twenty (20) days thereafter, a summary of the Company's financial performance not to exceed one page in length in a form to be mutually agreed upon by the Company and the recipients promptly following execution of this Agreement.

Section 4.03. Annual Audit . For so long as either MTVN Parent or RN Parent are required to include the Company's audited financial statements in its filings or other reports with the U.S. Securities and Exchange Commission, each of MTVN Stockholder and RN Stockholder (the " Requesting Stockholder ") may, in the event that such Requesting Stockholder reasonably believes that the Company will not provide an audited consolidated balance sheet of the Company and its Subsidiaries within fifty (50) days of the end of any fiscal year of the Company as required by Section 4.03(a), at its sole option, elect to engage on behalf of the Company an auditor to perform an audit on the Company's financial statements for such fiscal year, a copy of which shall be delivered to each of MTVN Stockholder and RN Stockholder. The Requesting Stockholder shall pay for the fees and expenses of such audit; provided , that if both MTVN Stockholder and RN Stockholder are required to include the Company's audited financial statements in its filings with the U.S. Securities and Exchange Commission, each shall pay for one-half of the total fees and expenses of the audit. The Company shall, and shall cause its officers, directors, employees and other agents to, cooperate with the auditor engaged by the Requesting Stockholder in connection with the preparation of such audit, including by affording such auditor access at all reasonable times to the Company's officers, employees, legal counsel, properties, offices, plants and other facilities and to all books and records of the Company.

Section 4.04. Access Rights . From and after the date hereof, the Company shall, and shall cause its officers, directors, employees, auditors and other agents to, for so long as any Stockholder holds at least seven and one half percent (7.5%) of the then outstanding shares of Voting Stock (a) afford the officers, employees, auditors and other agents of such Stockholder, during normal business hours and upon notice, access at all reasonable times to the Company's officers, employees, auditors, legal counsel, properties, offices, plants and other facilities and to all books and records of the Company, and (b) afford such Stockholder the opportunity to discuss the Company's affairs, finances and accounts with the Company's officers from time to time as each such Stockholder may reasonably request.

ARTICLE V

Term

Section 5.01. Term . This Agreement shall become effective on the date hereof and shall continue in effect until (i) in the case of the provisions herein other than those set forth in Article VI, the earlier to occur of (a) the Company's IPO, (b) a Deemed Liquidation Event or (c) a Transfer by the Stockholders of more than 50% of the aggregate Voting Stock of the Company and (ii) in the case of the provisions herein set forth in Article VI, the earlier to occur of (x) five years after the Company's IPO, (y) a Deemed Liquidation Event or (z) when all Registrable Securities are eligible to be sold without restrictions under Rule 144 within any 90-day period; provided , however , that the rights and obligations of each Stockholder under this Agreement shall terminate as to such Stockholder upon the Transfer of all (but not less than all) Voting Stock owned by such Stockholder (so long as such Transfer is in accordance with the provisions of this Agreement).

ARTICLE VI

Registration Rights

Section 6.01. Demand Registration . (a)Upon the earlier of (i) the fifth anniversary of the date of this Agreement and (ii) the six-month anniversary of the Company's IPO, the Company agrees that, upon the written request of either RN Stockholder or MTVN Stockholder so long as RN Stockholder or MTVN Stockholder, as applicable, owns at least twenty-five percent (25%) of the then outstanding shares of Voting Stock (the " Initiating Holders ") (a " Demand Registration "), it will as promptly as reasonably practical (but in any event within 45 days of receipt of such request) prepare and file a registration statement under the Securities Act (a " Registration Statement ", which term will include any amendments thereto and any documents incorporated by reference therein); provided that (i) the Company will not be obligated to effect (x) a Demand Registration if a Registration Statement pursuant to this Section 6.01 or Section 6.02 in which the holders of Registrable Securities had the right to include Registrable Securities was declared effective within 12 months prior to the date of the request for a Demand Registration, so long as the number of Registrable Securities which the holders of Registrable Securities requested to include in such Registration Statement was not reduced pursuant to Section 6.03 or (y) more than one Demand Registration (other than Demand Registrations taking the form of Shelf Options) for each of RN Stockholder and MTVN Stockholder (for a total of up to two Demand Registrations) under this Agreement and (ii) the Registrable Securities for which a Demand Registration has been requested will have a value (based on the average closing price per share of the Common Stock (or any successor security) for the ten trading days preceding the delivery of the Initiating Holders' request for such Demand Registration, or, if such average trading information is not available, as determined in good faith by the Board) of not less than $10,000,000 (or, in the case of a Shelf Option, $5,000,000); provided further that no registration will be counted towards the limitation in clause (i)(y) of the previous proviso unless all Registrable Securities requested to be registered where so registered or such registration was withdrawn at the request of the Initiating Holders (other than as a result of a material adverse change to the Company). Each such request for a Demand Registration by the Initiating Holders will specify the number of shares of Registrable Securities proposed to be offered for sale and will also specify the intended method of distribution thereof and, following receipt of such demand, the Company will give written notice of such Demand Registration to the holders of Registrable Securities (other than the Initiating Holders) as soon as practicable (but in no event less than 30 days before the anticipated filing date), and upon the written request, given within 15 days after delivery of any such notice by the Company, of any such holder of Registrable Securities (other than the Initiating Holders) to include in such Demand Registration Registrable Securities (which request shall specify the number of Registrable Securities proposed to be included in such registration), the Company will cause all such Registrable Securities to be included in such registration on the same terms and conditions as the Registrable Securities of the Initiating Holders. Upon the written request of Initiating Holders holding at least ten percent (10%) of the Registrable Securities then outstanding, the Demand Registration shall be effected by filing the Registration Statement on Form S-3 (if such form is available for such offering or, if such form is not available for such offering, other appropriate form) (the " Shelf Registration Statement ") which provides for the sale by the Participating Stockholders of their Registrable Securities from time to time in underwritten public offerings pursuant to Rule 415 under the Securities Act (the " Shelf Option "); provided that (i) the Initiating Holders may not elect the Shelf Option if the request thereunder is in connection with or would constitute the Company's IPO and (ii) the Initiating Holders may not elect more than one Shelf Option within any 365 day period.

(b) The Company agrees to use its commercially reasonable efforts (i) to cause any Registration Statement to be declared effective (unless it becomes effective automatically upon filing) as promptly as reasonably practicable after the filing thereof and (ii) to keep such Registration Statement effective for a period of (x) not less than 90 days or, if earlier, the period sufficient to complete the distribution of the Registrable Securities pursuant to such Registration Statement or (y) in the case of a Shelf Registration Statement, for a period ending on the first date on which all the Registrable Securities covered by such Shelf Registration Statement have been sold pursuant to such Shelf Registration Statement, but in no event longer than 180 days. The Company shall be deemed not to have used its commercially reasonable efforts to keep a Registration Statement effective during the requisite period if it voluntarily takes any action that would result in the Participating Stockholders not being able to offer and sell their Registrable Securities included in such offering during that period, unless such action is required by applicable Law or is pursuant to Section 6.06. The Company further agrees to supplement or make amendments to the Registration Statement as may be necessary to keep such Registration Statement effective for the period set forth in clause (ii) above, including (A) to respond to the comments of the SEC, if any, (B) as may be required by the registration form utilized by the Company for such Registration Statement or by the instructions applicable to such registration form, (C) as may be required by the Securities Act or the rules and regulations thereunder or (D) the Company as may be reasonably requested in writing by any Participating Stockholder or any Underwriter. The Company agrees, at least ten days before filing with the SEC a Registration Statement or prospectus and at least two days before filing with the SEC any amendments or supplements thereto, to furnish to the Underwriters, if any, to the Participating Stockholders, and to one counsel selected by the Participating Stockholders copies of all such documents proposed to be filed, which documents shall be subject to the review and reasonable comments of such Persons.

(c) In the event an offering of shares of Registrable Securities involves one or more Underwriters, MTVN Stockholder and RN Stockholder (provided that they are Participating Stockholders in such offering) will jointly (and if only one such Stockholder is a Participating Stockholder in such offering, such Stockholder acting individually) select the lead bookrunning Underwriter and any additional Underwriters in connection with the offering, subject to the reasonable approval of the Company.

(d) Notwithstanding the foregoing provisions of this Section 6.01, the holders of Registrable Securities may not request a Demand Registration during a period commencing upon filing (or earlier, but not more than 30 days prior to such filing upon notice by the Company to the holders of Registrable Securities that it so intends to file) a Registration Statement for Equity Securities of the Company (for its own account or for any other security holder) and ending (i) 90 days after such Registration Statement is declared effective by the SEC (or becomes automatically effective) or up to 180 days in the case of an underwriting if and to the extent requested by the lead Underwriter, (ii) upon the withdrawal of such Registration Statement or (iii) 30 days after such notice if no such Registration Statement has been filed within such 30-day period, whichever occurs first; provided that the foregoing limitation will not apply if the holders of Registrable Securities were not given the opportunity, in violation of Section 6.01(a) or 6.02, to include its Registrable Securities in the Registration Statement described in this Section 6.01(d); provided , further , that in no event will the holders of Registrable Securities be restricted hereunder for more than 180 days in any 12-month period.

(e) The Initiating Holders will be permitted to rescind a Demand Registration at any time; provided that if the Initiating Holders rescind a Demand Registration, such Demand Registration will nonetheless count as a Demand Registration for purposes of determining when future Demand Registrations can be requested pursuant to this Section 6.01, unless the Initiating Holders reimburse the Company for all expenses incurred by the Company in connection with such Demand Registration.

Section 6.02. Piggyback Registration. If the Company proposes to file a Registration Statement under the Securities Act with respect to an offering of Equity Securities of the Company for the Company's own account (other than a Registration Statement on Form S-4 or S-8 (or any substitute form that may be adopted by the SEC)), then the Company will give written notice of such proposed filing to the holders of Registrable Securities as soon as practicable (but in no event less than 30 days before the anticipated filing date), and upon the written request, given within 15 days after delivery of any such notice by the Company, of any holder of Registrable Securities to include in such registration Registrable Securities (which request shall specify the number of Registrable Securities proposed to be included in such registration), the Company will cause all such Registrable Securities to be included in such registration on the same terms and conditions as the Company's Equity Securities to be registered (a " Piggyback Registration "); provided , however , that if at any time after giving written notice of such proposed filing and prior to the effective date of the Registration Statement filed in connection with such registration, the Company shall determine for any reason not to proceed with the proposed registration of the securities, the Company may, at its election, give written notice of such determination to the Participating Stockholders and, thereupon, will be relieved of its obligation to register any Registrable Securities in connection with such registration. The Company will control the determination of the form of any offering contemplated by this Section 6.02, including whether any such offering will be in the form of an underwritten offering and, if any such offering is in the form of an underwritten offering, the Company will select the lead Underwriter and any additional Underwriters in connection with such offering.

Section 6.03. Reduction of Offering . Notwithstanding anything contained herein, if the lead Underwriter of an underwritten offering described in Section 6.01 or Section 6.02 advises the Company in writing that the number of Equity Securities of the Company (including any Registrable Securities) that the Company, the Participating Stockholders and any other Persons intend to include in any Registration Statement is such that the success of any such offering would be materially and adversely affected, including the price at which the securities can be sold, then the number of Equity Securities of the Company to be included in the Registration Statement for the account of the Company, the Participating Stockholders and any other Persons will be reduced pro rata (based on the number of securities to the registered) to the extent necessary to reduce the total amount of securities to be included in any such Registration Statement to the amount recommended by such lead Underwriter; provided that (a) priority in the case of a Demand Registration pursuant to Section 6.01 will be (i) first, the Registrable Securities requested to be included in the Registration Statement for the account of the Participating Stockholders, (ii) second, securities initially proposed to be offered by the Company for its own account and (iii) third, pro rata among any other securities of the Company requested to be registered by the holders thereof pursuant to a contractual right, so that the total number of registrable securities to be included in any such offering for the account of all such Persons will not exceed the number recommended by such lead Underwriter; and (b) priority in the case of a Piggyback Registration initiated by the Company for its own account pursuant to Section 6.02 will be (i) first, pro rata among securities initially proposed to be offered by the Company for its own account and Registrable Securities requested to be included in the Registration Statement for the account of the Participating Stockholders, and (ii) second, pro rata among any other securities of the Company requested to be registered pursuant to a contractual right, so that the total number of registrable securities to be included in any such offering for the account of all such Persons will not exceed the number recommended by such lead Underwriter.

Section 6.04. Registration Procedures . (a) Subject to the provisions of Section 6.01, in connection with the registration of the sale of Registrable Securities hereunder, the Company will as promptly as reasonably practicable:

(i) furnish to the Participating Stockholders without charge, if requested, prior to the filing of a Registration Statement, copies of such Registration Statement as it is proposed to be filed, and thereafter such number of copies of such Registration Statement, each amendment and supplement thereto (in each case including all exhibits thereto and documents incorporated by reference therein), the prospectus included in such Registration Statement (including each preliminary prospectus), copies of any and all transmittal letters or other correspondence with the SEC relating to such Registration Statement and such other documents in such quantities as the Participating Stockholders may reasonably request from time to time in order to facilitate the disposition of such Registrable Securities;

(ii) use its commercially reasonable efforts to register or qualify such Registrable Securities under such other securities or blue sky laws of such jurisdictions as the Participating Stockholders reasonably request and do any and all other acts and things as may be reasonably necessary or advisable to enable the Participating Stockholders to consummate the disposition of such Registrable Securities in such jurisdictions; provided that the Company will not be required to (x) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 6.04(a)(ii), (y) subject itself to taxation in any such jurisdiction or (z) consent to general service of process in any such jurisdiction;

(iii) notify the Participating Stockholders at any time when a prospectus relating to Registrable Securities is required to be delivered under the Securities Act, of the happening of any event as a result of which the prospectus included in a Registration Statement or amendment or supplement relating to such Registrable Securities contains an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and the Company will promptly prepare and file with the SEC a supplement or amendment to such prospectus and Registration Statement (and comply with the applicable provisions of Rules 424, 430A and 430B under the Securities Act) in a timely manner so that, as thereafter delivered to the purchasers of the Registrable Securities, such prospectus and Registration Statement will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(iv) advise the Underwriter, if any, and the Participating Stockholders promptly and, if requested by such Persons, confirm such advice in writing, of the issuance by the SEC of any stop order suspending the effectiveness of the Registration Statement under the Securities Act or of the suspension by any state securities commission of the qualification of the Registrable Securities for offering or sale in any jurisdiction, or the initiation of any proceeding for any of the preceding purposes. If at any time the SEC shall issue any stop order suspending the effectiveness of the Registration Statement, or any state securities commission or other regulatory authority shall issue an order suspending the qualification or exemption from qualification of the Registrable Securities under state securities or blue sky laws, the Company shall use its commercially reasonable efforts to obtain the withdrawal or lifting of such order at the earliest possible time;

(v) use its commercially reasonable efforts to cause such Registrable Securities to be registered with or approved by such other governmental entities as may be necessary by virtue of the business and operations of the Company to enable the Participating Stockholders to consummate the disposition of such Registrable Securities; provided that the Company will not be required to (x) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 6.04 (a)(v), (y) subject itself to taxation in any such jurisdiction or (z) consent to general service of process in any such jurisdiction;

(vi) enter into agreements and use commercially reasonable efforts to take such other actions as are reasonably requested by the Participating Stockholders in order to expedite or facilitate the disposition of such Registrable Securities, including preparing for and participating in such number of road shows and all such other customary selling efforts as the Underwriters reasonably request in order to expedite or facilitate such disposition;

(vii) make available for inspection by the Participating Stockholders, any Underwriter participating in any disposition of such Registrable Securities, and any attorney for the Participating Stockholders and any Underwriter and any accountant or other agent retained by the Participating Stockholders or any such Underwriter (collectively, the " Inspectors "), all financial and other records, pertinent corporate documents and properties of the Company (collectively, the " Records ") as will be reasonably necessary to enable them to conduct customary due diligence with respect to the Company and the related Registration Statement and prospectus, and cause the Representatives of the Company and its Subsidiaries to supply all information reasonably requested by any such Inspector in connection with such disposition; provided that (x) Records and information obtained hereunder will be used by such Inspector only to conduct such due diligence and (y) Records or information that the Company determines, in good faith, to be confidential will not be disclosed by such Inspector unless (A) the disclosure of such Records or information is necessary to avoid or correct a material misstatement or omission in a Registration Statement or related prospectus or (B) the release of such Records or information is ordered pursuant to a subpoena or other order from a court or governmental entity with competent jurisdiction;

(viii) use its commercially reasonable efforts to obtain and deliver to each Underwriter a comfort letter from the independent public accountants for the Company in customary form and covering such matters of the type customarily covered by comfort letters as such Underwriter may reasonably request;

(ix) use its commercially reasonable efforts to obtain and deliver to each Underwriter a 10b-5 statement and legal opinion from the Company's counsel in customary form and covering such matters as are customarily covered by 10b-5 statements and legal opinions as such Underwriter may reasonably request;

(x) otherwise use its commercially reasonable efforts to comply with all applicable rules and regulations of the SEC, and make generally available to its security holders, within the required time period, an earnings statement covering a period of 12 months, beginning with the first fiscal quarter after the effective date of the Registration Statement relating to such Registrable Securities (as the term "effective date" is defined in Rule 158(c) under the Securities Act), which earnings statement will satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder or any successor provisions thereto; and

(xi) use its commercially reasonable efforts to cause such Registrable Securities to be listed or quoted on a national securities exchange or national quotation system.

(b) In connection with the Registration Statement relating to such Registrable Securities covering an underwritten offering, the Company and the Participating Stockholders agree to enter into a written agreement with each Underwriter selected in the manner herein provided in such form and containing such provisions (including as to indemnification and contribution) as are customary in the securities business for such an arrangement between such Underwriter and companies of the Company's size and investment stature at the time of the offering. The representations and warranties by, and the other agreements on the part of, the Company to and for the benefit of such Underwriter in such written agreement with such Underwriter will also be made to and for the benefit of the Participating Stockholders.

Section 6.05. Information and Developments .

(a) The Company may require the Participating Stockholders to furnish to the Company such information regarding the Participating Stockholders or the distribution of such Registrable Securities as the Company may from time to time reasonably request in writing, in each case only as required by the Securities Act or the rules and regulations thereunder or under state securities or blue sky laws.

(b) Each Participating Stockholder agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in Section 6.04(a)(iii) hereof or a condition described in Section 6.06, such Participating Stockholder will forthwith discontinue disposition of such Registrable Securities pursuant to the Registration Statement covering the sale of such Registrable Securities until such Participating Stockholder's receipt of the copies of the supplemented or amended prospectus contemplated by Section 6.04(a)(iii) hereof or notice from the Company of the termination of the Deferral Period.

Section 6.06. Black-out Period. The Company's obligations to file or maintain the effectiveness of a Registration Statement pursuant to Section 6.01 and Section 6.02 hereof will be suspended if compliance with such obligations would require the Company to disclose a material financing, acquisition, disposition or other similar corporate development or other materially adverse non-public information concerning the Company, in each case which the Company is not otherwise required to disclose at such time, and the Board has reasonably determined that such disclosure would be significantly disadvantageous to the Company, in which case the Company shall furnish to the Participating Stockholders a resolution of the Board stating that the Company is delaying compliance with such obligations pursuant to this Section 6.06 and setting forth in reasonable detail the reasons, subject to any confidentiality obligations; provided that any such suspension will not exceed 90 days and all such suspensions will not exceed 180 days in any 12-month period (the " Deferral Period "). The Company will promptly give the Participating Stockholders written notice of any such suspension containing the approximate length of the anticipated delay, and the Company will notify the Participating Stockholders upon the termination of the Deferral Period.

Section 6.07. Registration Expenses. All fees and expenses incident to the Company's performance of or compliance with the obligations of this Article VI, including all fees and expenses of compliance with securities or blue sky laws (including reasonable fees and disbursements of counsel for any Underwriters in connection with blue sky qualifications of Registrable Securities), printing expenses, messenger and delivery expenses of the Company, any registration or filing fees payable under any Federal or state securities or blue sky laws, the fees and expenses incurred in connection with any listing or quoting of the securities to be registered on any national securities exchange or automated quotation system, fees of The Financial Industry Regulatory Authority, fees and disbursements of counsel for the Company, fees of its independent certified public accountants and any other public accountants who are required to deliver comfort letters (including the expenses required by or incident to such performance), transfer taxes, fees of transfer agents and registrars, costs of insurance, reasonable fees and expenses of one counsel (in addition to any local counsel) for the Participating Stockholders (such fees and expenses of counsel for the Participating Stockholders not to exceed $25,000 in the aggregate) and the fees and expenses of other Persons retained by the Company will be borne by the Company. The Participating Stockholders will bear and pay any underwriting discounts and commissions and stock transfer taxes applicable to Registrable Securities offered for its account pursuant to any Registration Statement.

Section 6.08. Indemnification; Contribution .

(a) In connection with any registration of Registrable Securities pursuant to Section 6.01 or Section 6.02 hereof, the Company agrees to indemnify and hold harmless, to the fullest extent permitted by Law, each Participating Stockholder, their Affiliates, directors, officers and stockholders and each Person who controls each such Participating Stockholder within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act (collectively, the " Indemnified Persons ") against any and all losses, claims, damages, liabilities and expenses, joint or several (including reasonable attorneys' fees) caused by any untrue or alleged untrue statement of material fact contained in any part of any Registration Statement, any preliminary or final prospectus used in connection with the Registrable Securities or any Issuer FWP, or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein (in the case of a prospectus, in the light of the circumstances under which they were made) not misleading; provided that the Company will not be required to indemnify any Indemnified Persons for any losses, claims, damages, liabilities or expenses resulting from any such untrue statement or omission if such untrue statement or omission was made in reliance on and in conformity with any information with respect to any Indemnified Person furnished to the Company in writing by a Participating Stockholder expressly for use therein. In connection with an underwritten offering, the Company will indemnify each Underwriter, the officers and directors of such Underwriter, and each Person who controls such Underwriter (within the meaning of either the Securities Act or the Exchange Act) to the same extent as provided above with respect to the indemnification of the Participating Stockholders; provided that such Underwriter agrees to indemnify the Company to the same extent as provided below with respect to the indemnification of the Company by the Participating Stockholders.

(b) In connection with any Registration Statement, preliminary or final prospectus or Issuer FWP, each Participating Stockholder, severally and not jointly. agrees to indemnify the Company, the Directors, its officers who sign such Registration Statement and each Person, if any, who controls the Company (within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act) to the same extent as the foregoing indemnity from the Company to the Participating Stockholders, but only with respect to information with respect to any Indemnified Person furnished to the Company in writing by such Participating Stockholder expressly for use in such Registration Statement, preliminary or final prospectus, or Issuer FWP.

(c) In case any proceeding (including any governmental investigation) will be instituted involving any Person in respect of which indemnity may be sought pursuant to Section 6.08(a) or (b), such Person (hereinafter called the " indemnified party ") will promptly notify the Person against whom such indemnity may be sought (hereinafter called the " indemnifying party ") in writing and the indemnifying party, upon request of the indemnified party, will retain counsel reasonably satisfactory to the indemnified party to represent the indemnified party and will pay the fees and disbursements of such counsel related to such proceeding; provided that failure to so notify an indemnifying party shall not relieve it from any liability which it may have hereunder, except to the extent that the indemnifying party is materially prejudiced by such failure to give notice. In any such proceeding, any indemnified party will have the right to retain its own counsel, but the fees and expenses of such counsel will be at the expense of such indemnified party unless (i) the indemnifying party and the indemnified party will have mutually agreed to the retention of such counsel or (ii) the named parties to any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and the indemnified party will have been advised in writing by counsel that representation of both parties by the same counsel would be inappropriate due to actual or potential conflicting interests between them. It is understood that the indemnifying party will not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the reasonable fees and expenses of more than one separate firm of attorneys (in addition to any local counsel) at any time for all such indemnified parties, and that all such reasonable fees and expenses will be reimbursed as they are incurred. In the case of the retention of any such separate firm for the indemnified parties, such firm will be designated in writing by the indemnified parties. The indemnifying party will not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there has been a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment. Notwithstanding the foregoing sentence, if at any time an indemnified party will have requested an indemnifying party to reimburse the indemnified party for reasonable fees and expenses of counsel as contemplated by the third sentence of this Section 6.08(c), the indemnifying party agrees that it will be liable for any settlement of any proceeding effected without its written consent if (i) such settlement is entered into more than 15 days after receipt by such indemnifying party of the aforesaid request and (ii) such indemnifying party will not have reimbursed the indemnified party in accordance with such request or reasonably objected in writing, on the basis of the standards set forth herein, to the propriety of such reimbursement prior to the date of such settlement. No indemnifying party will, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement is of a claim for monetary damages only, such claim has been settled by the payment of money only and such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such proceeding.

(d) If the indemnification provided for in this Section 6.08 from the indemnifying party is unavailable to an indemnified party hereunder in respect of any losses, claims, damages, liabilities or expenses referred to in this Section 6.08, then the indemnifying party, in lieu of indemnifying such indemnified party, will contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative fault of the indemnifying party and indemnified party in connection with the actions that resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative fault of such indemnifying party and indemnified party will be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact, has been made by, or relates to information supplied by, such indemnifying party or indemnified party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above will be deemed to include, subject to the limitations set forth in Section 6.08(c), any legal or other fees or expenses reasonably incurred by such party in connection with any investigation or proceeding.

(e) The parties agree that it would not be just and equitable if contribution pursuant to Section 6.08(d) were determined by pro rata allocation or by any other method of allocation that does not take into account the equitable considerations referred to in Section 6.08(d). No Person guilty of "fraudulent misrepresentation" (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

(f) Notwithstanding the provisions of this Section 6.08, no Participating Stockholder shall be required to make any indemnification or contribution payment, in the aggregate, in any amount in excess of the amount of the net proceeds received by such Participating Stockholder with respect to the Registrable Securities.

(g) If indemnification is available under this Section 6.08, the indemnifying party will indemnify each indemnified party to the full extent provided in Sections 6.08(a) and (b) without regard to the relative fault of said indemnifying party or indemnified party or any other equitable consideration provided for in Section 6.08(d) or (e).

Section 6.09. Lock-Up . If and to the extent requested by the lead Underwriter of the Company's IPO, the Company and the Participating Stockholders agree not to, and the Company shall use commercially reasonable efforts to cause its officers and directors not to, effect, and to cause their respective Affiliates not to effect, except as part of such registration, any offer, sale, pledge, transfer or other distribution or disposition or any agreement with respect to the foregoing, of the issue of Registrable Securities being registered or offered, as applicable, or of a similar security of the Company, or any securities into which such Registrable Securities are convertible, or any securities convertible into, or exchangeable or exercisable for, such Registrable Securities, including a sale pursuant to Rule 144 under the Securities Act, during a period of up to 180 days after the effective date of such registration as reasonably requested by the lead Underwriter; provided that such agreement shall only be applicable if all officers, directors and holders of more than one percent (1%) of the Voting Stock of the Company enter into similar agreements; and provided further that if the Company or the lead Underwriter release any Registrable Securities or any other securities (the " Released Securities ") from the restrictions contemplated by this Section 6.09 before the end of the period set by the Company or the lead Underwriter, then the Registrable Securities of each Participating Stockholder shall be released from the restrictions contemplated by this Section 6.09 in the same proportion as the Released Securities bear to the total number of securities held by such Participating Stockholder that were subject to the restrictions contemplated by this Section 6.09.

ARTICLE VII

General Provisions

Section 7.01. Notices . All notices, requests and other communications to any party hereunder shall be in writing (including a facsimile or similar writing) and shall be given to such party at the address or facsimile number set forth below or as such party shall hereafter specify for the purpose by notice to the other parties. Each such notice, request or other communication shall be effective (i) if given by facsimile, at the time such facsimile is transmitted and the appropriate confirmation is received (or, if such time is not during a Business Day, at the beginning of the next such Business Day), (ii) if given by mail, five (5) Business Days (or (x) if by overnight courier, one (1) Business Day or (y) if to an address outside the United States, seven (7) Business Days) after such communication is deposited in the mails with first-class postage prepaid, addressed as aforesaid or (iii) if given by any other means, when delivered at the address specified pursuant to this Section 7.01.

(i) if to the Company, to:

Rhapsody International Inc.
1420 Fifth Avenue
Suite 1500
Seattle, Washington 98101
Email: jirwin@rhapsody.com
Attention: Chief Operating Officer

(ii) if to RN Sub or RN Parent, to:

2601 Elliott Avenue
Suite 1000
Seattle, WA 98121
Phone: 206-674-2700
Email: tdaw@real.com
Attention: Tracy D. Daw

with a copy to:

Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, NY 10153
Phone: 212-310-8000
Fax: 212-310-8007
Email: ted.waksman@weil.com and steven.peck@weil.com
Attention: Ted S. Waksman and Steven M. Peck

(iii) if to MTVN Sub or MTVN Parent, to:

1515 Broadway
New York, NY 10036
Phone: 212-258-6070
Fax: 212-258-6099
Email: michael.fricklas@viacom.com
Attention: Michael D. Fricklas

with a copy to:

Cravath, Swaine & Moore LLP
825 Eighth Avenue
New York, NY 10019
Phone: 212-474-1000
Fax: 212-474-3700
Email: fsaeed@cravath.com
Attention: Faiza J. Saeed

(iv) if to Napster or Napster Parent, to:

Best Buy Co., Inc.
7601 Penn Ave. S.
Minneapolis, Minnesota 55423
Fax: 612-292-2323
Attention: Legal Department - M&A

with a copy to:

Dorsey & Whitney LLP
Suite 1500
50 South Sixth Street
Minneapolis, Minnesota 55402
Fax: 612-340-7800
Email: knopf.matthew@dorsey.com and marsalek.john@dorsey.com
Attention: Matthew J. Knopf and John Marsalek

(v) if to any Other Stockholder, to such address as set forth on Schedule F .

Section 7.02. Counterparts . This Agreement may be executed in multiple counterparts, each of which shall be deemed an original and all of which, taken together, shall constitute one and the same instrument and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

Section 7.03. Integration . This Agreement, the Transaction Agreement, the Asset Purchase Agreement, the Transaction Documents (as defined in the Transaction Agreement) and all other written agreements contemporaneously entered into herewith by the parties constitute the entire agreement among the parties hereto pertaining to the subject matter hereof and supersede all prior agreements and understandings of the parties in connection herewith, and no covenant, representation or condition not expressed in this Agreement shall affect, or be effective to interpret, change or restrict, the express provisions of this Agreement.

Section 7.04. No Third Party Beneficiaries . This Agreement shall be binding upon and inure to the benefit of all the parties hereto and their successors and assigns, and their legal representatives. No Stockholder may assign this Agreement or any of its rights, interests or obligations in connection with a Transfer of Voting Stock hereunder except to the extent such rights, interests and obligations relate to Voting Stock and the Transfer of such Voting Stock is in accordance with this Agreement and is provided for or contemplated herein.

Section 7.05. Applicable Law; Consent to Jurisdiction . This Agreement shall be governed by and construed in accordance with the laws of the State of New York without giving effect to the conflicts of law principles thereof. The Company and each of the Stockholders, by its, his or her execution hereof, (i) hereby irrevocably submit to the exclusive jurisdiction of the state and Federal courts located within the borough of Manhattan of the City, County and State of New York for the purposes of any claim or action arising out of or based upon this Agreement or relating to the subject matter hereof, (ii) hereby waive, to the extent not prohibited by applicable law, and agree not to assert by way of motion, as a defense or otherwise, in any such claim or action, any claim that it, he or she is not subject personally to the jurisdiction of the above-named courts, that its, his or her property is exempt or immune from attachment or execution, that any such proceeding brought in the above-named courts is improper or that this Agreement or the subject matter hereof may not be enforced in or by such courts and (iii) hereby agree not to commence any claim or action arising out of or based upon this Agreement or relating to the subject matter hereof other than before the above-named courts nor to make any motion or take any other action seeking or intending to cause the transfer or removal of any such claim or action to any court other than the above-named courts whether on the grounds of inconvenient forum or otherwise. The Company and each of the Stockholders hereby consent to service of process in any such proceeding, and agree that service of process by registered or certified mail, return receipt requested, at its address specified pursuant to Section 7.01, is reasonably calculated to give actual notice.

Section 7.06. Severability . Each provision of this Agreement shall be considered separable and if for any reason any provision or provisions hereof are determined to be invalid and contrary to any existing or future law, such invalidity shall not impair the operation of or affect those portions of this Agreement which are valid; provided , however , that in such case the Stockholders shall endeavor to amend or modify this Agreement to achieve to the extent reasonably practicable the purpose of the invalid provision or provisions.

Section 7.07. Amendment. Any amendments, modifications, supplements, restatements to or waivers of, or the termination of, this Agreement shall require the consent of: (i) RN Stockholder, for so long as RN Stockholder has a right to designate at least one Director pursuant to Section 2.01(a)(i); (ii) MTVN Stockholder, for so long as MTVN Stockholder has a right to designate at least one Director pursuant to Section 2.01(a)(ii); (iii) Napster Stockholder with respect to any amendment to Section 3.08 and (iv) the Company; provided that no such amendment, modification, supplement, restatement, waiver or termination shall have a disproportionate and materially adverse effect on the interests of a party hereunder or thereunder without the written consent of such party so affected.

Section 7.08. Headings. The titles of the sections and subsections of this Agreement are for convenience of reference only and shall not be interpreted to limit or amplify the provisions of this Agreement.

Section 7.09. Waiver of a Jury Trial. Each of the parties to this Agreement irrevocably waives any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement.

Section 7.10. Enforcement. (a)Each party hereto acknowledges that the other parties would not have an adequate remedy at law for money damages in the event that any of the covenants or agreements of any of the other parties in this Agreement were not performed in accordance with its terms, and it is therefore agreed that each party hereto, in addition to and without limiting any other remedy or right it may have, will have the right to an injunction or other equitable relief in any court of competent jurisdiction, enjoining any such actual or potential breach and enforcing specifically the terms and provisions hereof, and each party hereto hereby waives (i) any and all defenses they may have on the ground of lack of jurisdiction or competence of the court to grant such an injunction or other equitable relief and (ii) the need to post any bond that may be required in connection with the granting of such an injunction or other equitable relief.

(b) All rights, powers and remedies provided under this Agreement or otherwise available in respect hereof at law or in equity shall be cumulative and not alternative, and the exercise or beginning of the exercise of any thereof by any party shall not preclude the simultaneous or later exercise of any other such right, power or remedy by such party.

Section 7.11. Waiver. No failure by any party to insist upon the strict performance of any covenant, agreement, term or condition of this Agreement or to exercise any right or remedy consequent upon a breach of such or any other covenant, agreement, term or condition shall operate as a waiver of such or any other covenant, agreement, term or condition of this Agreement. Any party by notice given in accordance with Section 7.01 may, but shall not be under any obligation to, waive any of its rights or conditions to its obligations hereunder, or any duty, obligation or covenant of any other party. No waiver shall affect or alter the remainder of this Agreement but each and every covenant, agreement, term and condition hereof shall continue in full force and effect with respect to any other then existing or subsequent breach.

Section 7.12. Confidentiality . Each Stockholder expressly acknowledges that such Stockholder may receive confidential and proprietary information relating to the Company, including information relating to the Company's financial condition and business plans, and that the disclosure of such confidential information to a third party would cause irreparable injury to the Company. Except with the prior written consent of the Company, no Stockholder shall disclose any such information to a third party (other than on a "need to know" basis to any Affiliate or any employee, agent, representative or contractor of such Stockholder or its Affiliates), and each Stockholder shall use reasonable efforts to preserve the confidentiality of such information. The obligations of each Stockholder under this Section 7.12 shall survive the termination of this Agreement for a period of two years. Information exchanged between Stockholders shall be non-confidential unless exchanged pursuant to a separate confidentiality agreement executed between such Stockholders. Notwithstanding the foregoing, a Stockholder shall not be bound by the confidentiality obligations in this Section 7.12 with respect to any information that is currently or becomes (a) required to be disclosed by such Stockholder pursuant to applicable law (but only to the extent of such requirement), (b) publicly known or available without unlawful action or improper disclosure on the part of such Stockholder or (c) known or available to such Stockholder via legitimate means other than through or on behalf of the Company or the other Stockholders.

Section 7.13. Other Stockholders . Subject to the restrictions on Transfers of Voting Stock contained herein, any Person who is not RN Stockholder, MTVN Stockholder or Napster Stockholder acquiring Voting Stock (" Other Stockholder "), shall, on or before the transfer or issuance to it of Voting Stock and as a condition precedent thereto, sign an Adoption Agreement. Upon the Transfer of all (but not less than all) of the Voting Stock owned by RN Stockholder, MTVN Stockholder or Napster Stockholder to an Other Stockholder, such Stockholder shall be assigned the rights, interests and obligations hereunder of RN Stockholder, MTVN Stockholder or Napster Stockholder, as applicable, to the extent that RN Stockholder, MTVN Stockholder or Napster Stockholder, as applicable, has rights, interests and obligations immediately prior to such Transfer. The name and address of each Other Stockholder shall be listed on Schedule F , as amended from time to time.

Section 7.14. Publicity . Neither the Company nor any Stockholder shall issue any public release or make any press statement about the Company, its business or the transactions contemplated hereby without the consent of each Stockholder, except as otherwise required by applicable law.

Section 7.15. Absence of Presumption . The parties hereto have participated jointly in the negotiation and drafting of this Agreement and, in the event of ambiguity or in the event that any question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by such parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Agreement.

Section 7.16. Expenses . Each Stockholder shall be responsible for its own expenses incurred in connection with this Agreement.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, each party has duly executed this Agreement as of the date first written above.

RHAPSODY INTERNATIONAL INC.

By /s/ Jon M. Irwin
Name: Jon M. Irwin
Title: President

REALNETWORKS, INC.

By /s/ Michael Lunsford
Name: Michael Lunsford
Title: Executive Vice President

REALNETWORKS DIGITAL MUSIC OF CALIFORNIA, INC.

By /s/ Michael Lunsford
Name: Michael Lunsford
Title: President

VIACOM INTERNATIONAL INC.

By /s/ W. Keyes Hill-Edgar
Name: W. Keyes Hill-Edgar
Title: Senior Vice President & Assistant Secretary

DMS HOLDCO INC.

By /s/ W. Keyes Hill-Edgar
Name: W. Keyes Hill-Edgar
Title: Senior Vice President & Assistant Secretary

BEST BUY CO., INC.

by /c/ Chris Homeister
Name:Chris Homeister
Title:General Manager & SVP

NAPSTER, LLC

By /s/ Christopher W. Allen
Name: Christopher W. Allen
Title: General Manager - Napster

SUBSIDIARIES OF REALNETWORKS, INC.

Name of Subsidiary	Jurisdiction of Incorporation
Atrativa Latin America Ltda.	Brazil
Backstage Technologies Incorporated	British Columbia, Canada
Beijing RealNetworks Technology Co. Ltd.	China
Game Trust, Inc.	Delaware
HiFind Systems AG	Germany
Listen.com, Inc.	California
Mr. Goodliving Ltd.	Finland
PT RealNetworks Indonesia	Indonesia
Game House Europe B.V. (formerly RealGames Europe B.V. and Zylom Media Group B.V.)	The Netherlands
RealNetworks Asia Pacific Co., Ltd. (formerly WiderThan Co., Ltd.)	Republic of Korea
RealNetworks Australia Pty. Limited	Australia
RealNetworks Digital Music of California, Inc.	California
RealNetworks Dijital Medya Yazilim Limited Sirketi	Turkey
RealNetworks Finland Oy	Finland
RealNetworks Global, Inc.	Delaware
RealNetworks GmbH	Germany
RealNetworks GmbH (formerly Sony NetServices GmbH)	Austria
RealNetworks Hong Kong, Limited	Hong Kong
RealNetworks India Pvt. Ltd.	India
RealNetworks International SARL	Luxembourg
RealNetworks Investments LLC	Delaware
RealNetworks K.K.	Japan
RealNetworks Korea, Ltd.	Republic of Korea
RealNetworks Ltd.	United Kingdom
RealNetworks of Brazil LtdA	Brazil
RealNetworks of Mexico, S. de R.L. de C.V.	Mexico
RealNetworks Singapore Pte. Limited	Singapore
RealNetworks, SARL	France
Rhapsody International Inc.	Delaware
Rhapsody International SARL	Luxembourg
Ring Back Tones Australia Pty. Limited	Australia
RN Acquisition Corp.	Washington
RN Gemco, Inc.	Delaware
RN International Holdings B.V.	The Netherlands
RN International Holdings C.V.	The Netherlands
Syncredible, Inc.	Delaware
TM Acquisition LLC	Delaware
Trymedia Systems Sociedad Limitada	Spain
Varia LLC	Delaware
WiderThan UK Ltd.	United Kingdom

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
RealNetworks, Inc.:

We consent to the incorporation by reference in the registration statement (No. 333-114088) on Form S-3 and (Nos. 333-63333, 333-128444 and 333-147279) on Form S-8 of RealNetworks, Inc. of our reports dated February 29, 2012, with respect to the consolidated balance sheets of RealNetworks, Inc. as of December 31, 2011 and 2010, and the related consolidated statements of operations and comprehensive income (loss), cash flows, and shareholders' equity and noncontrolling interest for each of the years in the three-year period ended December 31, 2011, and the effectiveness of internal control over financial reporting as of December 31, 2011, which reports appear in the December 31, 2011 annual report on Form 10-K of RealNetworks, Inc.

/s/ KPMG LLP

Seattle, Washington
February 29, 2012

EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas Nielsen, certify that:

1. I have reviewed this report on Form 10-K of RealNetworks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 29, 2012

/s/ THOMAS NIELSEN
Thomas Nielsen
Title: President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael Eggers, certify that:

1. I have reviewed this report on Form 10-K of RealNetworks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 29, 2012

/s/ MICHAEL EGGERS

Michael Eggers
Title: Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

I, Thomas Nielsen, President, Chief Executive Officer and Director of RealNetworks, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of RealNetworks, Inc. on Form 10-K for the fiscal year ended December 31, 2011 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of RealNetworks, Inc.

Date: February 29, 2012

By: /s/ THOMAS NIELSEN
Name: Thomas Nielsen
Title: President and Chief Executive Officer
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to RealNetworks, Inc. and will be retained by RealNetworks, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

I, Michael Eggers, Senior Vice President, Chief Financial Officer and Treasurer of RealNetworks, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of RealNetworks, Inc. on Form 10-K for the fiscal year ended December 31, 2011 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of RealNetworks, Inc.

Date: February 29, 2012

By: /s/ MICHAEL EGGERS
Name: Michael Eggers
Title: Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to RealNetworks, Inc. and will be retained by RealNetworks, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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Music Choice

Table 1: Actual Residential Music Business Income Statement Performance

January 1, 1996 - December 31, 2011

[redacted]

Music Choice

Table 1.A - Historical Residential Music Business Performance Assuming a 45% Sound Exchange Rate

January 1, 1996 - December 31, 2011

[redacted]

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PUBLIC VERION

Music Choice

Table 2 - Residential Music Business Projections Using Current Sound Exchange Royalty Rate

January 1, 1996 - December 31, 2017

[redacted]

Music Choice
Table 2.A - Downside Scenario 1: Residential Music Business Projection Using Current Sound Exchange Royalty Rate
January 1, 1996 - December 31, 2017

[redacted]

Music Choice
Table 2.B - Downside Scenario 2: Residential Music Business Projection Using Current Sound Exchange Royalty Rate
January 1, 1996 - December 31, 2017

[redacted]

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Music Choice

Table 3 - Residential Music Business Projections Assuming Sound Exchange Rate Proposal

January 1, 1996 - December 31, 2017

[redacted]

PUBLIC VERSION

Music Choice

Table 3.A - Downside Scenario 1: Residential Music Business Projections Assuming Sound Exchange Rate Proposal

January 1, 1996 - December 31, 2017

[redacted]

Music Choice

Table 3.B - Downside Scenario 2: Residential Music Business Projections Assuming Sound Exchange Rate Proposal

January 1, 1996 - December 31, 2017

[redacted]